APRIL 25, 1936

THE MAGAZINE OF WALL STREET

AND BUSINESS ANALYST

Market Enters New Phase

By A. T. MILLER

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The Profit Possibilities in Copper Stocks

By GEORGE L. MERTON

•

For Greatest Progress in 1936

Consumer Goods? Heavy Industries?

By JOHN D. C. WELDON

C. G. Wyckoff
PUBLISHER

PRICE
35 CENTS

THE BALTIMORE AND OHIO RAILROAD CO.

SUMMARY OF ANNUAL REPORT FOR YEAR 1935

THE Annual Report of the President and Directors for the year 1935 is being mailed to Stockholders of record. Operating results and other matters of interest are summarized as follows:

CONDENSED INCOME ACCOUNT

	Year 1935		Increase Over 1934
Operating Revenues	$141,873,643.25		$6,334,247.97
Operating Expenses	105,464,140.17		6,126,356.05
Net Operating Revenue	$ 36,409,503.08		$207,891.92
Taxes, Equipment and Joint Facility Rents, etc	12,110,546.24	D	413,125.46
Net Railway Operating Income	$ 24,298,956.84		$ 621,017.38
Other Income less Miscellaneous Charges	5,141,402.87		303,790.71
Income Available for Fixed Charges	$29,440,359.71		$ 924,808.09
Fixed Interest and Other Charges	32,621,268.35		279,964.70
Net Income or *Deficit*	*$3,180,908.64*		$ 644,843.39
Depreciation Charged to Operation	7,110,662.85	D	473,096.58
Net Income before Depreciation	$3,929,754.21		$171,746.81

D—Denotes Decrease.

CONDENSED BALANCE SHEET
ASSETS

Investment in Road and Equipment		$ 979,821,839.36
Investment in Subsidiary and Affiliated Companies Separately Operated		88,638,519.41
All Other Investments		108,151,560.27
Total Investments		$1,176,611,919.04
Current Assets		27,418,253.99
Cash and Special Deposits	$8,687,424.91	
Material and Supplies	7,605,613.60	
All Other	11,125,215.48	
Deferred Assets and Unadjusted Debits		3,520,334.21
Total		$1,207,550,507.24

LIABILITIES

Capital Stock		$ 315,158,509.87
Preferred Stock	$58,863,161.95	
Common Stock	256,295,347.92	
Unmatured Interest Bearing Obligations		687,694,114.77
Bonds and Other Obligations Issued or Assumed	$636,034,714.77	
Unassumed Obligations of Operated Subsidiaries	41,209,000.00	
Capitalized Leaseholds	10,450,400.00	
Current Liabilities		23,110,893.58
Audited Accounts and Wages Payable	$7,926,610.59	
Accrued Interest Charges	8,906,851.80	
All Other	6,277,431.19	
Deferred Liabilities and Unadjusted Credits		105,255,729.15
Accrued Depreciation—Equipment	$89,215,894.17	
Inter-Company Non-negotiable Accounts	9,819,468.25	
All Other	6,220,366.73	
Corporate Surplus		76,331,259.87
Total		$1,207,550,507.24

REVIEW OF OPERATIONS

"Operating revenues increased $6,334,247.97, or 4.67%, over 1934. Freight revenue increased $6,489,163.64, or 5.58%, while revenue tons increased 2.46%. The relatively larger increase in freight revenue is due to emergency increase in rates granted by the Interstate Commerce Commission, effective April 18, 1935. Passenger revenue declined $259,978.18, or 2.56%, due, in part, to decrease of 1.33% in passengers carried one mile. Other revenues including mail and express increased $105,062.51, or 1.16%.

"Operating expenses increased $6,126,356.05, or 6.17%, over 1934. Total maintenance expenses increased $2,758,483.96, or 6.93%, of which $298,364.62 was in maintenance of way and structures, and $2,460,119.34 in maintenance of equipment. The maintenance of equipment expenses include depreciation charges of $7,110,662.85, a decrease of $473,096.58, compared with 1934. Transportation expenses increased $2,854,826.25, or 6.02%.

INCREASED EXPENSES

"In addition to the expense of handling increased traffic, the restoration of rates of pay which were in effect prior to February 1, 1932, added approximately $4,515,000 to operating expenses during 1935 over 1934. Effective February 1, 1932, a deduction of 10% was made in basic rates of pay; of this 2½% was restored July 1, 1934; 2½% on January 1, 1935, and the balance, or 5% on April 1, 1935.

TAXES

"For the year 1935 the Company paid in taxes, Federal and State, an aggregate of $7,519,323.17. This represents 19.52% of the income before taxes ($38,512,134.49) and is equivalent to $2.39 on each share of capital stock outstanding.

NET INCOME

Net operating revenues increased $207,891.92, while taxes, equipment and joint facility rents, etc., decreased $413,125.46, resulting in an increase in Net Railway Operating Income of $621,017.38. Other income, including rents, dividends and interest, after deducting miscellaneous charges, reflect an increase over 1934 of $303,790.71. Income of $29,440,359.71 was available for interest and other fixed charges amounting to $32,621,-268.35, resulting in a net deficit of $3,180,908.64. The Net Income before depreciation was $3,929,754.21.

CHANGES IN CAPITAL ACCOUNT

"There was a net decrease in the total investments of the Company of $3,388,968.54, the major portion, or $1,806,543.34, being for retirement of road and equipment, and the remainder represented by adjustments with subsidiary companies entailing no diminution in asset value, and by some miscellaneous items of relatively minor importance. There was a net decrease in unmatured obligations of $3,359,119.50, due chiefly to the retirement of equipment trust notes.

FEDERAL LEGISLATION

"The United States Supreme Court on May 6, 1935, decided that the Railroad Retirement Act of 1934 was unconstitutional; however, another act substantially similar in its purpose, known as the Railroad Retirement Act of 1935, was approved August 29, 1935, and on the same day another act was approved, to levy an income tax on all employees of 3½% on monthly compensation not in excess of $300.00, and an excise tax on carriers of 3½% of the compensation not in excess of $300.00 per month paid employees. The railroads have united in proceedings to test the constitutionality of this legislation.

The Social Security Act, approved August 14, 1935, imposes an additional excise tax on the carriers covering unemployment compensation. The tax for 1936 will be 1% of total wages paid; 2% in 1937, and thereafter at the rate of 3%. The constitutionality of this act has not yet been passed upon.

SHAREHOLDERS

At the close of 1935 there were 42,389 registered holders of the Company's capital stock of both classes, with an average holding of 74 shares. The continued cooperation of shareholders in the use of the Company's facilities and the solicitation of the business of others for transportation over its lines is earnestly desired and greatly appreciated.

"The President and Board of Directors record their appreciation of the loyal support and efficient cooperation of the officers and employes in the conduct of the Company's business and affairs throughout the year.

DANIEL WILLARD,
President."

Member of Audit Bureau of Circulations

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WITH THE EDITORS

We Change Our Advice on Distillers Corp.-Seagrams

WHEN we recommended Distillers Corp.-Seagrams as a speculation early this year, we did so because we believed this stock represented an unusual opportunity to obtain at a low price a security of good earning power which had possibilities for both price enhancement and dividend income. In accordance with our practice, this security was put on our active list for continuous observation and attention.

But even substantial stock-ownership close to this magazine was unable to secure sufficiently definite and frequent reports to intelligently follow the company's affairs.

Whether someone on the inside was able to get such information we do not know. It is worth noting, however, that Distillers Corp.-Seagrams which reached a high of 34⅝ on the New York Stock Exchange this year has been declining under persistent selling to a present quotation around 21½. The reason for this liquidation became clear recently when the company got around to releasing its statement of earnings for the six months ended January 31. The period of operations covered included the seasonally best months of the year in the liquor business, but earnings were only $1.62 a share as compared with $5.05 per share reported for the fiscal year ended July 31, 1935.

Moreover, as a result of reduction in the duty on Canadian whiskey, it was necessary for the company to set up a special provision of $1,724,986 for rebates to dealers in the United States and also to adjust the duty paid on inventories in the hands of the company. The report failed to indicate what proportion of this reserve was chargeable to current earnings and what proportion to surplus. If deducted from earnings the profit for the six months was only 63 cents a share. Beyond the meager report, no explanation whatever, so far as we have been able to determine, has been available from the management, nor has a breakdown been made available to indicate whether the trend of the past three months was more or less favorable than the last quarter of last year.

This publication recommended the stock of Distillers Corp.-Seagrams to its readers on the belief that its formerly strong competitive position in the liquor market and its favorable earnings would be maintained in such manner as to justify higher prices for the equity, although we were fully aware of the basically speculative character of the enterprise and, for that matter, all others in the liquor business. Developments have made us change our opinion and we therefore advise any of our readers holding this issue to dispose of it, or to await the autumn in the expectation of the seasonal improvement in the liquor business, at which time they possibly may be able to liquidate the stock at a price level more favorable than the present.

Practicing what we preach, we propose to watch other liquor stocks with an eagle eye and an open mind—deferring decision for the present.

In The Next Issue

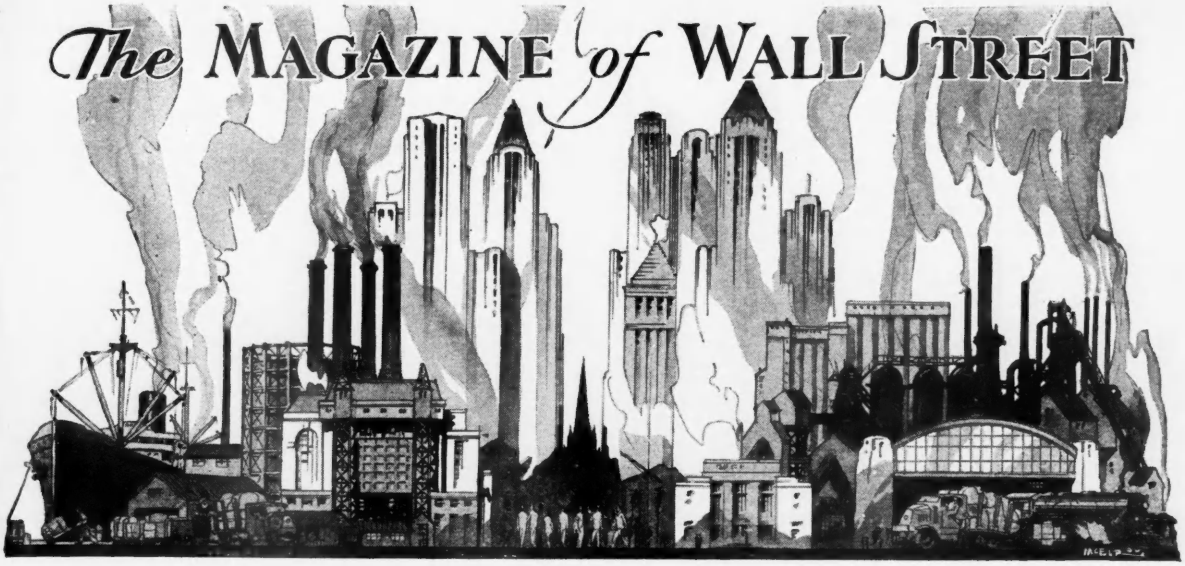
Beyond the Second Quarter
Natural Business Recovery vs. Politics
By JOHN D. C. WELDON

More Foreign Trade At the Expense of Home Industry?
By H. M. TREMAINE

Price Earnings Ratios As a Means of Market Appraisal
By CHESTER TUTTLE

Low-Priced Rails in the Best Position
By EDWIN A. BARNES


Wear a V.F.W. BUDDY
POPPY
A A AMATO
VETERANS OF FOREIGN WARS
OF THE UNITED STATES



E. Kenneth Burger
Managing Editor

C. G. Wyckoff
Publisher

Theodore M. Knappen
Laurence Stern
Associate Editors

The Trend of Events

ROOSEVELT, THE BUDGET AND BUSINESS

IN President Roosevelt's Baltimore address two points stand out. He ridiculed as a futile panacea the suggestion of critics that he should "put the Federal finances in order." The address was political, carrying no specific commitment as to future policy. Nevertheless open scorn for the "panacea" of a balanced budget suggests that the President has no present intention of cutting down on expenditures. If so, this is of significance to business and to the security markets, implying no halt in budgetary inflation at least for the present.

The second point of significance is the President's assertion that "the total production of America is about back to the high point before the depression" but that "only a little over 80 per cent as many human beings are engaged in turning out that production." This is significant because—like many other New Deal slaps at American business—it is not only erroneous but tends to mislead the uninformed and to encourage agitation for legislative "remedies" that can never better the lot of the unemployed.

The fact that the Federal Reserve Board index of production in recent months has been as high as 104 per cent of the 1923-1925 average and the fact that it would today show probably 98 per cent of that average does not mean that economic activity has recovered to the pre-depression level. This index covers only manufacturing and mining. It leaves out such vital and still depressed activities as construction and the service industries and trades; and it makes no allowance for growth in population since the 1923-1925 period. Without per capita adjustment such a comparison is as meaningless as it would be to measure present production against that of 1907 or 1893. Then, too, the variations in production from month to month have no close relation to employment. Only in the longer movement do the two run together.

What, then, are the realities of our position? Simply this: Business activity per capita during 1935 averaged slightly less than 73 per cent of the per capita business of 1923-1925, and thus far in 1936 has averaged only a trifle more than 77 per cent of the 1923-1925 figure. If employment is at 80 per cent of the pre-depression level—as the President asserts—it is ahead of business recovery and not behind it. However much up from bottom, we are still in severe depression—especially in construction and the capital goods industries. When economic recovery is actually complete there will be few on public relief save those—not inconsiderable in number—who have no will to work.

FARMERS HAVE MONEY TO SPEND

SO far this year the farmers of the country have taken in more money than last year because larger crops have added more to income than moderately lower prices have subtracted from it. For the first two months of 1936 cash farm income slightly exceeded $1,000,000,000, a gain of about 19 per cent over the corresponding period of 1935. The comparison is even more favorable than the statistics imply because during the first two months of this year no A A A benefit or rental payments were disbursed, whereas such payments swelled farm income throughout 1935.

If farm income continues up for the rest of the year it will give an important lift to many lines of industry and trade, notably automobiles, farm and household equipment and mail order sales. It is quite certain that it *will* continue up. One does not have to be a weather prophet to make this forecast. It would take amazingly bad weather and crops, indeed, to offset the new "soil erosion" payments from Uncle Sam—payments which will flow with increased momentum from now on—and the soldiers' bonus, approximately a quarter of which, or some $500,000,000, will go to farmer veterans. Thus, from his own endeavors, from Federal payments and from the windfall of the bonus, the farmer is quite likely to have the largest cash income in many years.

FROM THE CHEAPEST TO THE BETTER

THOSE who make or sell luxury goods—long out of luck in the depression—may derive a modicum of satisfaction in the most recent figures of automobile registrations. The aftermath of the 1929 economic debacle was an increasingly dominant market position for the cheapest cars. They still hold top position but the high-price and moderate-price cars at last are creeping up in the race for consumer preference.

In January and February, Chevrolet, Ford and Plymouth cars had 67.34 per cent of the total market. In the same months of last year they had 71.32 per cent of the market. The biggest percentage gains from a year ago now center in high-price and moderate-price cars, although comparison is distorted by the low base from which the contrast is made. Nevertheless the apparent drift of demand from the cheapest to something better is significant not only to the motor industry but to business generally. It reflects both increased purchasing power and increased will to indulge it.

THE STOCK EXCHANGE TAKES SECOND THOUGHT

THE New York Stock Exchange recently suggested to listed corporations that henceforth they issue reports of 12-month earnings quarterly "instead of interim reports in any other form which you have used in the past." The argument advanced for the 12-month statement was that it corrected seasonal distortions in earning power and was therefore less likely to mislead the investor. The American Telephone & Telegraph Co., with the largest number of stockholders of any company in the world, promptly adopted the suggestion. Westinghouse Electric, on the other hand, issued both a 12-month statement and its regular quarterly report. The result of the Exchange's innovation—a step backward from full and frank publicity—has been a storm of protest from investors and analysts—a protest so effective that official second thought has now been taken. The Exchange announces it is preparing a letter suggesting that listed companies issue both 12-month statements and quarterly statements. Thus, out of a mistaken move, there will come a real advance. The 12-month reports will "iron out" seasonal fluctuations in earnings—a subject on which we believe some companies have been too touchy, since most investors are sufficiently intelligent to take such variations into account. The additional quarterly report will have the merit of revealing later changes.

TRADE WILL GO ON

AS the political temperature rises and the strong and weak points of hopeful presidential candidates are debated it is well to keep in mind:

That we have had all sorts of Presidents in a century and a half and their personalities, policies and abilities have had but minor influence one way or the other on the economic and social progress that has taken this Nation to new heights of well being after every depression set-back. America has a genius for business organization, technological advance, scientific achievement. These—not politics—have established for us the highest living standard in the world.

That the Party in power always has the jobs and the organization, and that the opposition Party always is confused, divided and ineffective until its candidate is actually nominated—after which comes organization and increasing coherence.

That preference primaries at this season—such as that in Illinois which left Republican candidates Knox and Borah neither stronger nor weaker than they were before—have very little significance. The best proof of this is that the candidate who has done the least campaigning for delegates—Governor Landon of Kansas—is conceded at present to be far ahead of the field.

That whoever is President, it is a thoroughly bad and dangerous thing for either Party to have such steam roller dominance of Congress as has prevailed during the past three years. Excess of power undermines democratic processes of government. At the other extreme a too even balance of Party power produces only stalemate and inaction in government.

That political trends reflect primarily economic trends. Acute emergency is over. Whoever is President, political emergency has also passed its crest. There are some signs of this in a more independent and responsible spirit even in the present one-sided Congress, as shown, for example, by protracted consideration of the pending tax bill and the Congressional rebuff given the President on the unauthorized Florida Ship Canal and Passamaquoddy.

Monday, April 20, 1936

As I See It ~ By Charles Benedict

Good-Will and Co-operation

THE world sets up a basis of calculation in facts and figures. But, the final decisions are made on appraisal of character, confidence and respect, for peace of mind, and for self-interest.

Corporations with securities for sale to the public are in a vulnerable position because the prices at which the shares in their institutions are evaluated appear in the public press of the country every day. And, because surplus funds seek opportunity of capital enhancement as well as income, security prices subconsciously impress the investor, favorably or unfavorably, as an index to the current position as well as the future prospects of the enterprise. This has become a vital influence on the commercial sales of the corporation, which it would be well for all corporate executives to recognize.

During the depression the independent automobile companies suffered greatly decreased business, in a large measure because of the fear on the part of the buying public that these companies might not make the grade and the buyers would be left with an "orphan" car. Thus it is that the automobile industry has come more and more to addressing itself to the self-interest of the stockholder, with the suggestion that they buy the cars of the company in which they own shares. More and more are important companies recognizing the customer value of their security holders.

General Foods, Goodyear Tire & Rubber, Standard Oil of New Jersey, among others, impress upon the stockholder a sense of proprietorship in the company and urge him, in his own interest, to patronize the company's products. Still other companies not only pursue this policy of fostering sales, but by one means or another, through public relation efforts, endeavor to build a closer relationship between the company and their stockholders. Du Pont and Cyanamid have been leaders in this regard.

And now comes Chairman E. J. Cornish of National Lead who consents to a split-up of his stock in order to correct the impression in the minds of National Lead dealers and customers that the high level of the old stock indicated inordinately large profits. This able executive recognized how harmful such a mistaken idea would be to future sales of his products if such an erroneous impression were permitted to grow.

Robt. D. Smith Photo, from Nesmith

The publicity attending all corporations with securities for sale to the public reaches into every phase of their activities. Thus it is that the companies selling at the highest ratio to earnings are the organizations in whose managements the investors have the greatest confidence. They are also the managements in which the consuming public has the greatest confidence.

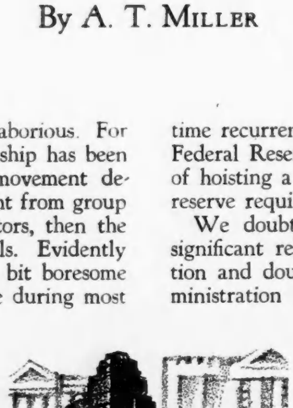
Every major industry and corporation is morally obligated to deal openly and frankly with its customers and its security owners. To do otherwise is to foster a distrust and unpopularity to be used against

(*Please turn to page* 62)

What's Ahead for the Market?

By A. T. Miller

THE stock market finds the going laborious. For some time broad speculative leadership has been missing, with selective forward movement dependent upon the rotation of the spotlight from group to group—now the steels, now the motors, then the coppers, the farm equipments and the rails. Evidently the rotating performance has become a bit boresome and moderate reaction has been the rule during most of the past fortnight.



For this short-swing and probably meaningless reversal of trend there are various reasons and some excuses. Almost any reason, or excuse, for reaction will do when a market has been going up for something more than a full year, when a great many stocks have gone far—if not completely—toward discounting the favorable second quarter business expectations, when thoughts begin to turn to the less obvious prospects of the third quarter and to the election uncertainties early in the fourth quarter and, finally, when a stale and tired speculative long position—however, moderate—has been built up.

As a purely internal factor, the recent failure of the railroad group to climb through its February high after a five-day advance was a speculative disappointment and was quite evidently interpreted as a short-swing selling signal by traders who believed a re-assertion of leadership by this group was necessary to keep the immediate pot boiling—or, perhaps, simmering would be the better word, since activity has dwindled considerably from even the moderate January-February levels.

Then, too, it happened that the first fifteen or twenty first-quarter corporate earnings statements that came to hand made a somewhat spotty showing, however cerain it is that aggregate business profits for the period will prove, when all statements are in, to have made a good showing in year-ago comparison. Mixed with some excellent reports are others showing either a moderate decline from a year ago or a gain not up to the gain in sales, whether reflecting higher costs or closer operating margins or what not. Downward adjustment of individual stock values to disappointing reports has within the past fortnight contributed rather more to weakness than response to good reports has contributed to strength.

Among recent external developments capable of influencing the market we have had the President's political address at Baltimore, a deepening of the basic European political uncertainty—now tending to become a perennial "crisis"; and further deterioration of the position of the French franc. At the same time recurrent rumors have gone the rounds that the Federal Reserve Board is considering the advisability of hoisting a warning signal by raising member bank reserve requirements.

We doubt that Mr. Roosevelt's speech has any significant relation to the current speculative hesitation and doubt. It enunciated nothing new in Administration policy or philosophy. Indeed, to the extent that it implied continued emergency spending it could be construed as a bull argument on equity values, although, of course, the inflation of bank deposits resulting from the Government's deficit financing is far more significant to the longer range movement of prices than to the week-to-week fluctuations.

Nor do we believe the market is unduly disturbed by the curious European diplomatic debate in which the gist of the thing seems to be that Hitler, Mussolini and Stalin know what they want to do but Great Britain and France cannot make up their minds. The debate will continue, with early hostilities on the Continent highly improbable, and the stock market very likely will put it out of mind when and if it sees reasons at home to resume the advance.

The position of the French franc, and its relationship to our market, is, however, another matter and something definitely to be taken into account in speculative operations. We have previously expressed the view that a revaluation of the franc by 20 or 25 per cent probably would not prove a severe shock to this market for the reason that such a development has been expected for a long time and can, therefore, contain no element of surprise. On the other hand we have also pointed out that the actual repercussion would necessarily depend to a large extent on the internal status of our market at the time of such event.

In a strong and confident market we would expect reaction resulting from franc revaluation to be moderate and brief. In a market which, prior to franc revaluation, had already undergone substantial technical correction—either in anticipation of the event or for other reasons—we would also expect the repercussion to be slight or even absent. But in a stale and doubtful market, such as has recently prevailed—a market unable to make significant general progress on the one hand and reluctant to decline on the other hand—we would expect franc revaluation to serve as a quite logical excuse for a shake-down of something more than technical proportions, if not, indeed, a full intermediate reaction running to something like 10 or 15 per cent.

The market looks stale. With second-quarter business gains largely discounted, fresh stimulus is needed. This and the probability of early French franc revaluation suggest caution in short-swing speculation. We see no need, however, for change in investment or long-range speculative policies.

There can be no question of the precarious status of the franc, despite the hard battle the French Government has continued in defense of the present gold parity. Pressure on the French banking system has increased considerably, with discounts at the Bank of France sharply higher and bankers' balances declining. Gold withdrawals continue. Currency circulation rises. Public fright is reflected in hoarding, both of gold and notes. The $200,000,000 credit obtained from British banks some weeks ago has already been used up and as this is written there are rumors—not yet confirmed but apparently supported by a rally in francs and a reaction in the Dutch guilder—that a second credit has been obtained from Holland to tide over the crisis, if possible, pending the French national elections late this month and early in May.

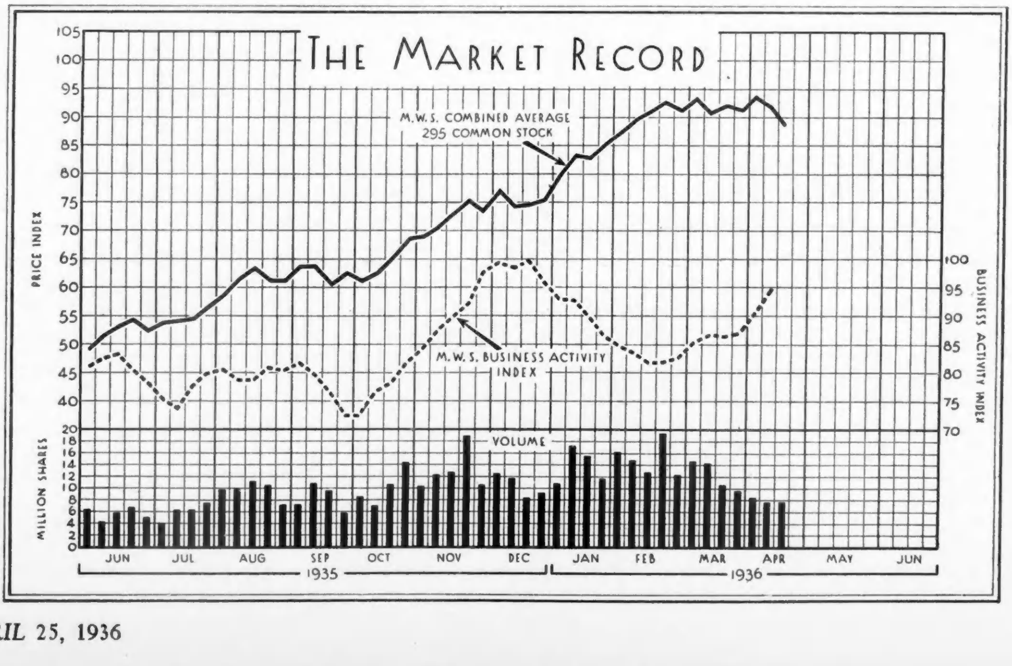
The amount of French capital that would be repatriated from this country and the speed of its repatriation would depend partly on the extent by which the franc is revalued and partly on the general European war outlook. War fears on the one hand would tend to hold French capital here. An automatic profit and prospect of French economic improvement and recovery in depressed security prices would work the other way.

We believe that franc revaluation, if it comes within a period of weeks, will not at the outside result in withdrawal of more than $300,000,000 gold from this country. Such a movement would be of purely transient speculative significance, without relation to our basic price trend and hence not an event justifying alteration either of investment policy or longer range speculative commitments in sound equities.

On the whole, there is reason to devote greatest attention to our domestic prospect. From the long range point of view it appears to us preponderantly favorable. We see no probability that the New Deal budgetary inflation will receive any material check until at least after the election next November.

Meanwhile business activity is rising briskly under the leadership of the automobile and steel industries and construction. Steel operations at this writing are at 68 per cent of capacity and on present indications should hold around this rate or slightly higher for at least the next several weeks. Against the prospect of some recession in automobile activity not far ahead, there is the spreading spiral of basic recovery in such lines as structural steel, rails and rail equipment, farm equipment and capital industries generally—the whole movement deriving added stimulation from a farm purchasing power which so far this year continues to run 15 to 20 per cent above the 1935 monthly figures.

There is nevertheless justification for caution in near term speculative operations both because of the possibility of early French franc revaluation and because our business trend for the next few months is not only obvious but substantially discounted. The market needs a fresh stimulus, whether in a clearer consensus of the second half-year outlook or otherwise.



Happening in Washington

By E. K. T.

> ## Washington Sees—
>
> ***Possibilities of rapid rise in prices.***
>
> ***State Department smoothness soothing high tariff men as it writes a new low tariff.***
>
> ***Franc soon to go the way of all gold.***
>
> ***Eccentric profits tax to stick—processing taxes to slip.***
>
> ***Borah as dominant figure in a convention which will not nominate him.***
>
> ***Free field for "social objective" bills.***
>
> ***Cappers stockyards bill to win out.***
>
> ***N R A type of restrictions to apply to Government contracts.***
>
> ***President, sobered by Congress rebuffs, offers clever expiation in retreat from fatuous Passamaquoddy and Florida blunders.***
>
> ***Alarming chance that bituminous coal control will be approved by Supreme Court. More special N R A's would follow.***

Federal Reserve members—some of them—are apprehensive that the pressure of a series of statutes and dynamic developments may be suddenly touched off into an explosion of prices. Preventive action has been proposed and is being studied. Stock market repression would be the first objective. Board would not act without the President's concurrence—and he would be in a most difficult position if the Board should favor action within the next few months.

Inflation is always hailed at first as a welcome boom. But no regulatory action can be effective after an inflation boom gets a good start. It may be "now or never" before election.

Franc devaluation is expected here, in June. Treasury equalization fund is shaping policy accordingly. If France embargoes export of gold, British management of the pound will be without a base on which to operate. In that event co-operation between the British and American stabilization policies is expected.

Devaluation without suspension of gold exports by France is not expected to cause an extensive repatriation of French capital now in the United States.

Senate Finance Committee hearings on the tax bill are expected to be more comprehensive than those of the Ways and Means Committee. The finance committee will write its own bill, which will vary widely from the House bill.

Forecast is, however, that the ensuing conference will in the main support the President's idea of a tax on undistributed profits. House members still think the plan to force profits into circulation has great popularity. Processing taxes are dubious.

Congress has been slowed up by the Senate trial of Judge Ritter on impeachment charges by the House. . . . A flock of minor bills has passed the House, and both houses have adopted versions of antilobbying measure. Senate will hold hearings this week on Wagner housing bill—likely to pass. . . . As expected, the rural electrification bill is now launched. It will be a $50,000,000 factor in summer and fall easy spending. Senator Norris's Mississippi Valley Authority bill is sidetracked. . . . Wheeler-Crosser bill for the protection of railway labor against economies of co-ordination or anything else will become law. . . . But co-ordination is due to die with the authority of the Co-ordinator when the Emergency Railway Act expires on June 16. President is doing nothing about it—evidently thinks that it is a hot potato from the political point of view. . . . Patman chain store bill is set for a vote in the house in April. . . . It will go through with a rush. Senate will probably fall in line with the Robinson bill or a Patman amendment. . . . Revelation that city farmers' banks and corporations have got as high as $1,000,000 for not raising anything have made Democratic members of Congress mad with chagrin. But proposals to limit benefits to $1,000 will die. . . . Hearings will last two or three weeks on La Follette resolution to investigation repression of freedom of speech by labor leaders organizing collective bargaining units. Main purpose is to inflame public opinion against corporations and private business management generally. . . . The farm tenancy bill, which passed the Senate last summer, will be taken up by the House Agriculture Committee this week. Hearings will be packed by all sorts of social uplifters—due to pass. . . . Proposed authorizations of several compacts between states concerning joint legislation viewed as blazing the way for constitutional middle ground between centralization and states rights. . . . Packers-Stockyards bill (Capper) through the Senate, almost certain to get by in the House.

George N. Peek, whose peaches and cream complexion of War Industries days is now rough and ruddy, may emulate General Hagood in a comeback act. Disciplined by Secretary Hull and finally let down by the President, who used him as a shock-absorber to opposition to the Hull tariff policy, there's a bare chance that Peek may be "czar" of America's foreign trade policies. The State Department is silently suppressing the plan, as far as it can, but certain interests and political forces are working for it. Representative Mitchell of Tennessee has recently revived the proposal in Congress, Senator Lewis (Ill.), for a Federal Board of Foreign Trade, despite the fact that the National Foreign Trade Council, after endorsing the idea at its November convention, is now on the other side of the fence.

The Mitchell-Lewis bill is one more presentation of

the centralization and simplification urge which seizes Congress just after every multiplication of bureaus by itself. (Forty-seven governmental agencies romp around collisionally in the foreign trade field.) Political objective is to create a big place for Peek as chairman of the board and thus keep this original farm problemer on the Roosevelt side of the political battle.

Republicans rave at each other and at the President over the trade agreement way of reducing the tariff by secretive "trading" with which Congress has nothing to do. The truth is that the tariff bartering about which the average Congressman knows nothing until he reads about it in the newspapers is headed by a brain-truster on leave from the University of California and about to return to academic halls.

Grady is his name—and is he smooth? More of a real politician than the professionals. Probably had a lot to do with Chairman O'Brien's (Rep.) exhortation to the Republicans to endorse the reciprocal concession policy of tariff making.

Business men who have discovered who the head devil in tariff casting is come storming into his office in raging complaint over the cut he has administered to their tariffs and come out purring. "Too bad, too bad," Grady tells them, "I knew this would hurt, but it's only a part of a curative treatment. Just wait, you'll get yours in the coming agreement with Omnaveria. When that opulent country opens its doors to *your* goods you'll forget all about what this other deal has done for foreign goods." Actually, and yet you won't believe it—business men are using Grady's slashes in their protective tariffs as arguments for slashes in some other industry's tariff (accompanied by lowering of some foreign tariff barrier to their goods).

Now, unbeliever, read this (a "big" Republican business man writes to a senator to urge him not to support the Foreign Trade Board scheme): "It is our belief that the present facilities for interdepartmental procedure toward co-ordination is adequate and that a separate facility would not be beneficial to the industries interested in the extension of foreign commerce. The backbone of the present program, supported in common by the public as well as many agencies of industry and commerce, is the system of reciprocal trade agreements. That program is under way. It holds considerable promise. It has, we believe, wide public support. Our industry has already had its tariffs deeply pared. It is interested in the *general* (sic) restoration of foreign commerce."

So there you are, industries already trimmed want to see their group competitors trimmed and their own losses made up by export markets. Every concluded agreement is an argument for another one. "But how long, O Lord, must we wait for ours—fourteen concluded agreements and not a smell for us."

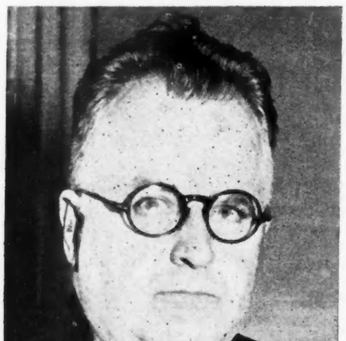
Wide World Photo

George N. Peek

He may come back.

Trade agreement preliminary negotiations with the United Kingdom, long soft-pedaled by the State Department, are now conceded to have reached assurance of formal schedule dickering. Administration wants final agreement before the presidential election. State Department representatives have returned from preliminary negotiations with France, and it is now expected that a Franco-American agreement will be concluded within a month. Present friction between France and England is expected to accelerate French agreement, which has had tedious exploratory conversations. First break has come in the Ottawa British preferential agreements. . . . India has given six months notice of denunciation. . . . The dicker with Australia is in suspense. Australians want "unilateral" reciprocity agreement. Purpose is to reduce imports from the United States and increase exports. But except as they may make their own deals with the U. S., all British dominions are counted as discriminatory against the U. S., because of Empire preferences, and not entitled to the favored nation clause in any of the Hull agreements. According to the U. S. view any political unit which has full power over its tariff is an independent nation for economic purposes.

Coal's little N R A will learn its fate from the Supreme Court on April 26. Be ready for a jolt. Conviction is gaining ground that the Bituminous Coal Conservation Act will be sustained by a 5 to 4 decree. If that is the event the Ellenbogen bill for a *little* N R A for the *cotton textile industry* will become law. Next there will be a flock of particular N R A's. There is even a strong possibility of one for investment bankers and, wonder of wonders, it is said to spring from an inspiration from among their own ranks.



Wide World Photo

Henry F. Grady

The politic academician of the foreign trade pacts.

Cotton situation, governmentally, is confused. Cotton Commodity Credit Corporation has begun the sale of 1,000,000,000 of its 4,000,000,000 bales. Amendments of the Cotton Futures Act have been held up. Thee trade demands that 2,000,000 bales be sold immediately and the rest of the government's holdings be systematically liquidated. Senator Smith, Congress' cotton "authority" suspects a trade plot to get the Government's cotton dirt cheap. Traders say that prices will be unnecessarily low so long as the government holdings are reserved. Smith is opposing the Commodity Exchange Commission bill sponsored by the Department of Agriculture.

(Please turn to page 60)

For Greatest Progress in 1936

Consumers Goods? Heavy Industries?

Stocks of Leading Companies in Consuming Lines Begin to Look Relatively Cheap—But Are They?

By John D. C. Weldon

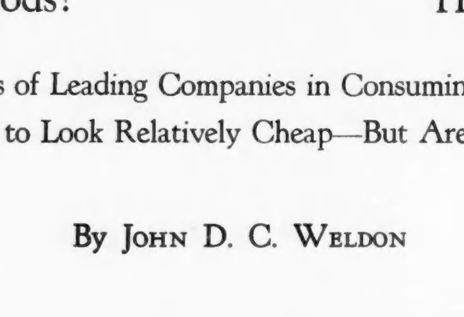
FOR a great many months speculative leadership in the stock market has centered largely in issues of companies engaged principally in the production of capital goods or consumers' durable goods or some combination thereof.

Underlying the popularity of such stocks is a common conviction that from this point they have further to go in recovery of earning power than the general run of consumption goods equities. Against this there arises a question as to whether the favored capital goods stocks—however dynamic their longer future—have not at present prices over-discounted the realities for so long a future period as to preclude additional worthwhile appreciation this year. If they have, there arises the further question whether many of the long sluggish consumption goods stocks may not be regarded as relatively attractive.

In seeking an answer to these questions it will be helpful to review the differences in market action of capital goods stocks and consumption goods stocks in recent years and to examine also some of the contrasts in economic fundamentals as between these two broad classes of industrial securities. The reservation must, of course, be made that there are usually some exceptions to every generalization; and that, however valuable certain general conclusions may be, every common stock must be appraised on an individual basis.

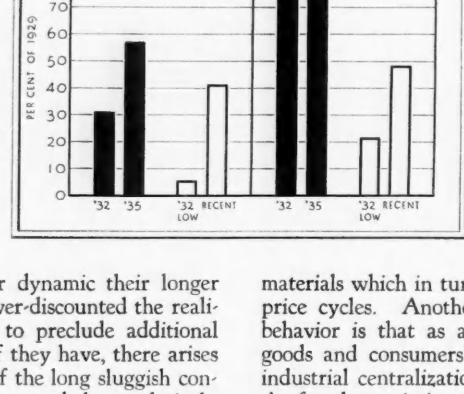
Consumption goods include chiefly food, clothing, beverages, gasoline and other products of immediate necessity; and merchandizing enterprises are usually classed in this field. Capital goods may be described as products or equipment purchased for use in production, distribution or trade. Consumers' durable goods include automobiles and a broad range of household equipment.

As a generality it is important to bear in mind that most consumption goods are subject to relatively moderate variations in demand — measured in terms of physical volume — but are characterized by broad fluctuations in price. In contrast, the majority of capital goods and consumers' durable goods are characterized by relative stability of prices but by very wide variations in the physical volume of demand.

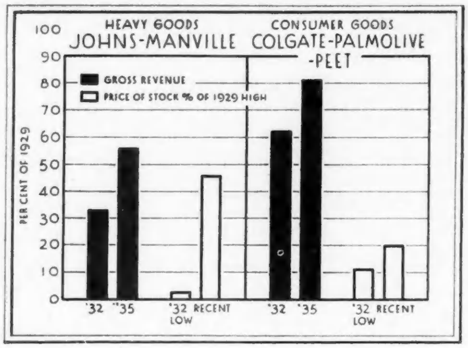


There are several reasons for these differences. One is that most consumption goods, notably food and clothing, are simply the processed products of agricultural raw materials which in turn are characteristically subject to wide price cycles. Another reason for the difference in price behavior is that as a generality the production of capital goods and consumers' durable goods is subject to a closer industrial centralization than is true of consumption goods. As for the variations in the physical volume of demand, it need hardly be said that purchases of capital goods or consumers' durable goods can be, and are, promptly and indefinitely deferred during cycles of adverse business and declining national income, whereas on the other hand goods of immediate necessity always meet a demand at a price.

In consequence of these inherent differences, the price fluctuations of consumption goods stocks should in theory be much more restricted, both in advance and decline, than the price cycles of equities falling into either of the other two classes. In most instances it has worked out this way, with the reservation that both in boom and panic there is a tendency of the market to lose sight of the realities. Hence the manner in which these different classes of stocks behaved in late 1929 and in the summer of 1932 is more misleading than illuminating. On the other hand, no such emotional extremes have been present in the markets of 1934, 1935 and 1936 to date. Therefore the inferences to be drawn from this period should throw some genuine light



on the respective merits of the three different classes of industrial equities under discussion.



In examining the trend of various typical stocks in all three classes during recent years one thing that stands out is that most consumption goods equities recovered in price much faster and more promptly than capital goods equities or issues dependent chiefly upon consumers' durable goods. The reason for this was that public demand for consumption goods was first to rebound; and there was the further reason that the initial fast recovery in commodity prices was more beneficial to consumption goods companies than to the other industrial classifications, restoring increasingly favorable profit margins. It is also to be observed that consumers' durable goods, notably automobiles and household equipment, were next to participate in recovery, with capital goods last.

Another trend that is well worthy of notice is that in many consumption goods stocks the greater part, if not all, of the recovery experienced to date had been experienced by the summer of 1933 or, in other instances, by the spring of 1934, with relatively unimportant further progress in 1935. For this there were several reasons. For one thing, the stock market began to foresee that, regardless of the absence of current earnings, the longer prospect of the capital goods and consumers' durable goods stocks was far more dynamic than that of consumption goods equities, most of which had already been restored to a reasonable ratio with available earnings per share. A second reason, at least as affecting some consumption goods issues, was that the initial advantages of low cost inventories had been or were being dissipated.

To cite a pertinent example: General Mills, manufacturer of flour, is a first grade consumption goods enterprise, with a notable record of stability in gross business and profits. Its sales totalled $123,521,000 in 1929, declined only to $83,886,000 in 1933, the low year; rebounded to $118,092,000 in 1934 and went to a new high at $143,074,000 last year. These variations relate more to the price of flour than to physical volume. Earnings per share were $4.58 in 1929, fell only to $3.93 in 1932, and then were, respectively, $4.13 in 1933, $3.56 in 1934 and $4.12 last year. Yet this stock, reflecting sheer panic, fell from a high of 89⅛ in 1929 to a low of 28 in 1932. What is more to the point of this article, it had recovered to a high of 71 as early as the summer of 1933 and since then has never gone substantially above that level, its highest quotation last year having been 72½ and its highest this year to date having been 70½. The current price is around 63½. This is about 15.4 times last year's earnings per share—a not unreasonable ratio in a "cheap money" market—and the dividend of $3 yields more than 4.7 per cent.

Yet the earnings behind this equity are in striking distance of the 1929 figure. Virtually complete recovery is an established fact, which implies there is certainly no additional dynamic recovery in prospect. The issue has been priced accordingly for nearly three years and we see no reason why it should be priced on any substantially different basis this year.

On the other side of the picture, take a look at United States Steel, an outstanding example of a company dependent chiefly on capital goods and secondarily on consumers' durable goods into which steel enters. This corporation had gross revenues of $1,493,505,000 in 1929 and saw them nose-dive to $357,201,000 in 1932. The 1929 profit of $197,592,000 had become a deficit of $71,175,000 by 1932. Recovery was slow, sales advancing only to $524,968,000 in 1933, or not much more than one-third of 1929 business; and to only $591,609,000 in 1934. For those two years the deficits were, respectively, $36,501,000 and $21,667,000. But in 1935, with capital goods swinging into brisk recovery and consumers' durable goods forging further ahead, revenues spurted to $758,893,000, or more than half the 1929 volume—and "Steel" had turned the corner, showing a profit for the year of $1,146,708.

Six months ago there was a spread of more than 23 points between the op-

(*Please turn to page* 58)

Stocks of Leading Companies in the 1933 Market and Today

Consumption Goods Stocks

	1933 High	Recent Price	Gain] or Loss
American Sugar	74	54¾	—19¼
Am. Tobacco "B"	94¾	92⅞	— 1⅞
American Woolen	17	9¾	— 7¼
Borden	37⅜	27½	— 9⅞
Celanese	58⅞	28¼	—30⅝
Cudahy	59½	39½	—20
First National Stores	70¾	45¼	—25½
General Baking	20⅞	12⅞	— 8
General Foods	39⅞	36⅝	— 3¼
Diamond Match	29½	37¼	+ 7¾
Gold Dust	27⅜	19½	— 7⅞
American Chicle	51¼	89⅜	+38⅛
Hershey Chocolate	72	77⅜	+ 5⅜
Endicott Johnson	62⅞	66⅞	+ 4
Great Western Sugar	41⅞	35	— 6⅞
Kroger Grocery	35⅝	24½	—11⅛
Macy	65¾	43	—22¾
National Tea	27	9½	—17½
Pacific Mills	29	17⅜	—11⅝
Procter & Gamble	47½	46¾	— ¾
Phoenix Hosiery	17¾	9	— 8¾
Purity Bakeries	25⅜	13⅜	—12
Real Silk Hosiery	20⅞	15¼	— 5⅝
Safeway Stores	62⅜	32⅜	—30
Sears, Roebuck	47	68	+21
Standard Brands	37⅝	16	—21⅝
Sterling Products	60¾	70	+ 9¼
United Biscuit	27⅝	25½	— 2⅛
White Rock	29	14⅞	—14⅛
Zonite Products	8½	8⅛	— ⅜

Durable Goods Stocks

	1933 High	Recent Price	Gain or Loss
Allegheny Steel	26	36	+10
Allis Chalmers	26⅜	49⅜	+23
American Brake Shoe	42½	49	+ 6½
Am. Car & Foundry	39¾	36	— 3¾
American Chain	14	52½	+38½
American Radiator	19	24	+ 5
American Smelting	53½	85	+31½
Caterpillar Tractor	29¾	77½	+47¾
Chicago Pneu. Tool	12⅜	16¾	+ 4⅜
Chrysler	57⅝	102	+44⅜
Columbian Carbon	71½	125	+53½
Cutler Hammer	21	61	+40
Deere & Co	49	85	+36
Fairbanks Morse	11¼	53	+41¾
General Electric	30¼	40	+ 9¾
General Ry. Signal	49½	43	— 6½
General Refractories	19¾	44¾	+25¾
Holland Furnace	10½	40⅝	+30⅛
Ingersoll Rand	78	125	+47
Int. Business Mach.	153¼	183	+29¾
Johns-Manville	63½	115	+51½
Kelvinator	15⅝	23⅝	+ 8
Ludlum Steel	20⅛	31	+10⅞
Mack Truck	46⅜	36¼	—10⅛
Mesta Machine	21	48½	+27½
National Lead	140	305	+165
Otis Elevator	25¼	31	+ 5¾
Sperry Corp	7½	20	+12½
West. Air Brake	35⅝	44⅝	+ 9
Worthington Pump	39⅞	33¼	— 6⅝

¶ Are the new powers of the Reserve Board sufficient to control the credit which is utilized by industry and the security markets?

Why the New Banking Laws May Prove Disappointing

By Robert H. Hemphill*

CENTRAL bank control of the volume of deposit currency in circulation, here in the United States, is largely based upon the ancient idea that bankers will lend to whomsoever everything but the kitchen stove, unless restrained by drastic regulation.

It is true that there was a time not so far back in our history when a large percentage of our commercial banks, under flattering circumstances would loan liberally on almost anything one could bring in the front door, but financially speaking, that was a long, long time ago.

All Member Banks Federal Reserve System

All figures in millions of dollars—six ciphers omitted

As of the close of	U. S. Govt. Obligations	Other Securities	Total Loans (except inter-bank)	Reserves with F. R.	Cash	Deposits Demand
1928.....	4,311	6,217	24,618	949	181	**16,503
1929.....	3,863	5,921	25,437	920	169	**16,647
1932.....	6,540	5,726	14,760	2,511	423	12,691
1933.....	7,254	5,132	12,547	2,678	471	12,674
1934.....	10,815	5,227	11,871	4,082	609	15,686
1935.....	12,269	5,541	12,077	5,573	665	**18,801

* Not including broker's loans. ** Increased number of member banks distorts relationship between boom years and present. Demand deposits of all banks of the nation are more than 4 billion under 1929 peak.

Almost no-one seems to visualize the full significance of the great change which our banking system has undergone in the last few years. The most adventurous bankers who in former depressed periods initiated recovery by liberal expansion of credit, are out of the banking picture, never to return. They went out with the ten thousand or more banks which have gone into the discard in the last very few years. The survivors are a different breed. "Commercial credit" as we knew it in pre-depression days, is only a memory.

Even if present bank managers were so disposed, the Comptroller of the Currency and his corps of examiners, with the vision of the last few years fresh in their minds, would never permit the loose methods of credit extension which gave us our amazing prosperity but wrecked the banking system.

However, the problem which confronts society is, that this means of payment, this "deposit currency," which formerly was created by unsound loans, must be supplied by some agency.

It is futile to day-dream of expanding business without increasing the means of payment. As the first step in our exchange of goods and services, our labor and products must be exchanged for money. If the supply of money or some usable substitute is inadequate, full production is obviously impossible. No informed persons, except a few paid propagandists, any longer attempt to argue against the fact that the total volume of money or its usable substitute in circulation, controls the total volume of business of the nation, and consequently production, employment, wages, prices, property values and prosperity.

The only purpose for having a central monetary authority is to control the volume of production and exchange of goods and services by controlling the volume of circulating purchasing power—money and deposit currency—in circulation.

The new Federal Reserve Law sets up a presumably non-partisan body which is the head of the Federal Reserve system and as such has powers theoretically designed to vary the quantity of deposit money in circulation, either to inflate or deflate, to quote much misused terms.

To accomplish this they have been given control of the rediscount rates of the Federal Reserve Banks, also they may raise the legal reserve required of the member banks by 100 per cent of the present figure, neither one of which measures would have any more effect on the amount of credit the banks are at present inclined to extend than shooting a mosquito on the banks of the Congo.

They may also engage in "open market operations." This means that they may buy or sell Government bonds from or to the public or the banks or both. In actual practice, under usual circumstances, selling bonds to the public has a diametrically opposite effect to the sale of bonds to the commercial banks. One is deflationary, the other inflationary. For instance, if the Federal Reserve board, to check inflation, offered, say four billions of Treasury bonds—two billions of which were purchased by banks and two billions by the public—the total demand deposits in all banks after the transaction would stand just where it stood before. The individuals would deplete their deposits two

* Robert H. Hemphill views the money question from the standpoint of his years of experience in banking and in business. His connection with the Federal Reserve system dated from its inception. He is a widely recognized authority on monetary subjects, and we are glad to publish his views on this important question of credit control.

billions in payment for their bonds and the banks would create two billions of new deposits in payment for their bonds.

The Federal Reserve banks might, however, sell to the member banks the two billions of bonds they own for cash, if the banks were willing, and this would reduce the great fund of excess reserves now carried by the banks, but such a move would be opposed by conservative bankers who will never again attempt to operate on the shoe-string reserve provided by law.

Banks Can Inflate or Deflate

There is another angle which is not generally recognized. The commercial banks now own in excess of ten billions of bonds. They are therefore in position to inflate or deflate by buying or selling bonds from or to the public, independently of any action of the Federal Reserve Board and to a far greater extent than the central authority could counteract. This is predicated, however, upon the assumption that the public is able and willing to buy or sell bonds.

To check inflation, the Federal Reserve Board might undertake to decrease the volume of deposit currency by selling bonds to the public alone, declining all bids from banks. The banks could completely offset this movement by buying an equal amount from the public and creating new deposit currency in payment.

There is little point, however, in arguing the theoretical sale of bonds to the public. The public has no money to buy bonds in any appreciable quantity. According to the F. D. I. C., the total demand deposits of all individuals, firms and corporations in more than 98 per cent of all the banks of the nation on December 31 was only 20 billions of dollars. This is approximately seven billions less than we had in circulation in late 1929, when there were five million less people in this nation than there are today.

There is no idle money in this department. It is the inadequate working balances of these individuals, firms and corporations and is only about two-thirds the quantity necessary to exchange the goods and services of the nation with everyone employed. This money is in constant motion. It is the total means of payment of the nation—our total circulating purchasing power.

Moving at top speed, under the most favorable circumstances, it will serve as the intermediate to transfer to the consumer no more than 60 billions of the diversified goods and services of the nation in one year. To restore comparative activity of 1929 at the prices, wages, salaries and property values of that period, we would require not less than 30 billions of dollars in the checking accounts of individuals, firms and corporations in our commercial banks. We are 10 billion dollars under that figure.

Wide World Photo

The new Federal Reserve Board. Left to right, seated: Ralph W. Morrison (Texas); Marriner S. Eccles, chairman; Ronald Ransom (Georgia); M. S. Szymezak (Illinois). Standing: John McKee (Ohio); Joseph A. Broderick (New York).

The outstanding limitation of the Federal Reserve Board, in its effort to regulate the volume of credit currency in circulation, is its lack of influence with, or jurisdiction over, state banks. Its jurisdiction extends only to banks which are members of the Federal Reserve system and this important defect will prevent any very substantial improvement in the banking situation through a Federal monetary authority, as long as we have laws which permit the two types of banks, state and national.

Competition Between Banks

In ordinary times, competition between banks is so keen that national banks would unquestionably forfeit their national charters rather than undertake to operate under regulations which would seriously handicap them in competition with state supervised banks, and, since the guarantee of deposits law was enacted, the national bank offers little, if anything, from the standpoint of safety, superior to the state bank. Therefore, if the state bank is able to offer tangible advantages to depositors or borrowers which the national banks are not permitted to duplicate, they will most certainly get the business.

There is still another factor which has of recent years disturbed monetary control in every civilized country, and that is the large body of floating capital constantly ready to cross international boundary lines. It has been estimated that this now amounts to ten billions of dollars. Raising re-discount rates, or forcing higher interest rates for speculative security loans to check inflation of stock market prices, invariably brings in a flood of this foreign money which results in increasing instead of arresting the inflationary movement, and contra, lowering interest and discount rates to encourage credit expansion encourages withdrawal by foreign depositors.

I know of no-one who has offered a practical solution to this problem short of drastic prohibition of the import or export of capital, with its disorganizing effect upon international trade.

I have been unable to discern in the recent amendments to the Federal Reserve Act any substantial improvement over the previous set-up. In the final analysis, it is just another attempt to perpetuate an unworkable banking system which periodically threatens to destroy commerce and industry to preserve itself.

It appears to me that any expansion or contraction of the volume of deposit currency in circulation which may be effected by the new Federal Reserve Board will be due almost exclusively to voluntary co-operation of the banks of the nation, and this will be very largely controlled by the

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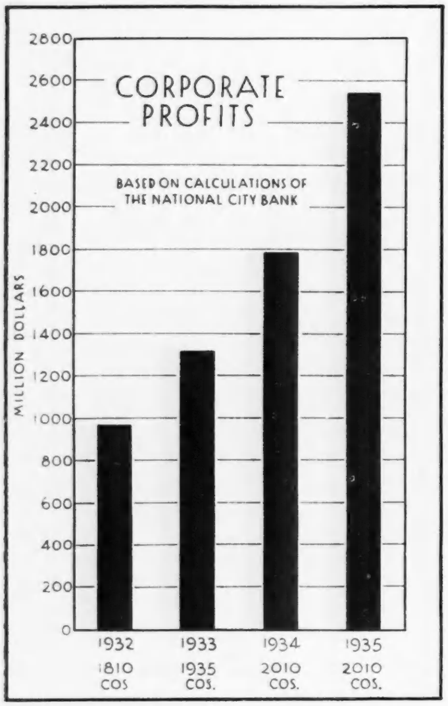
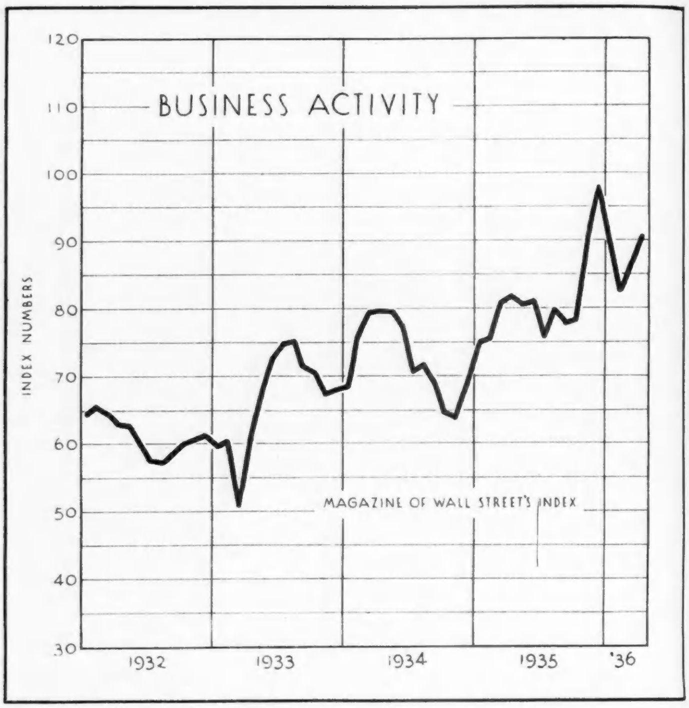
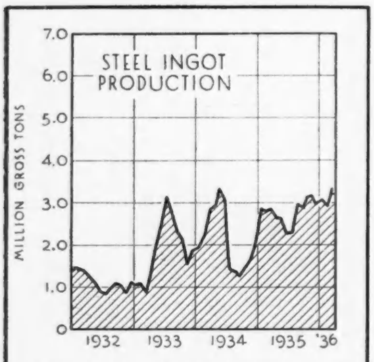
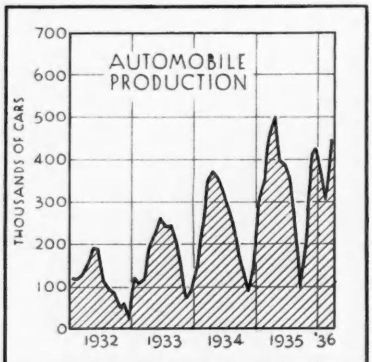
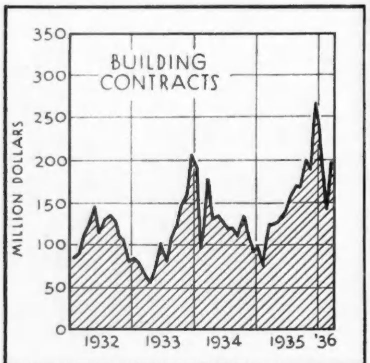
On the Way Up—How Fa

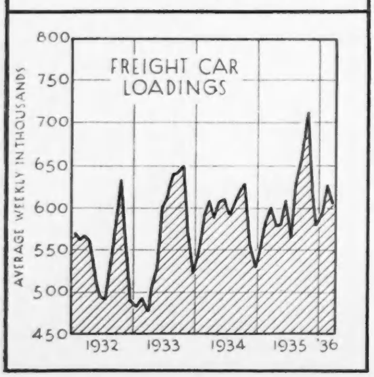


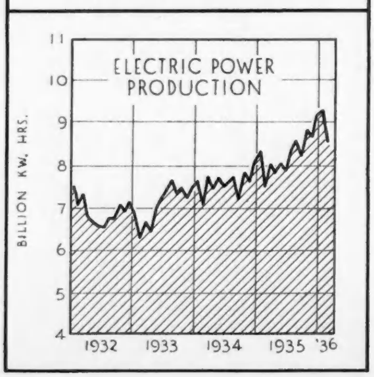


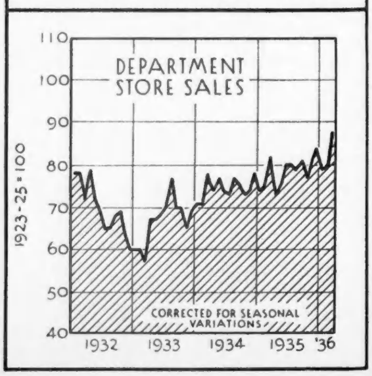


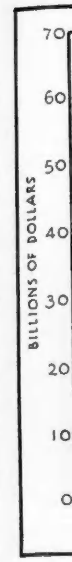


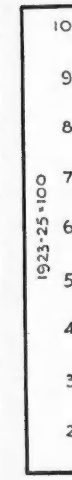


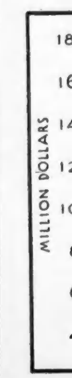




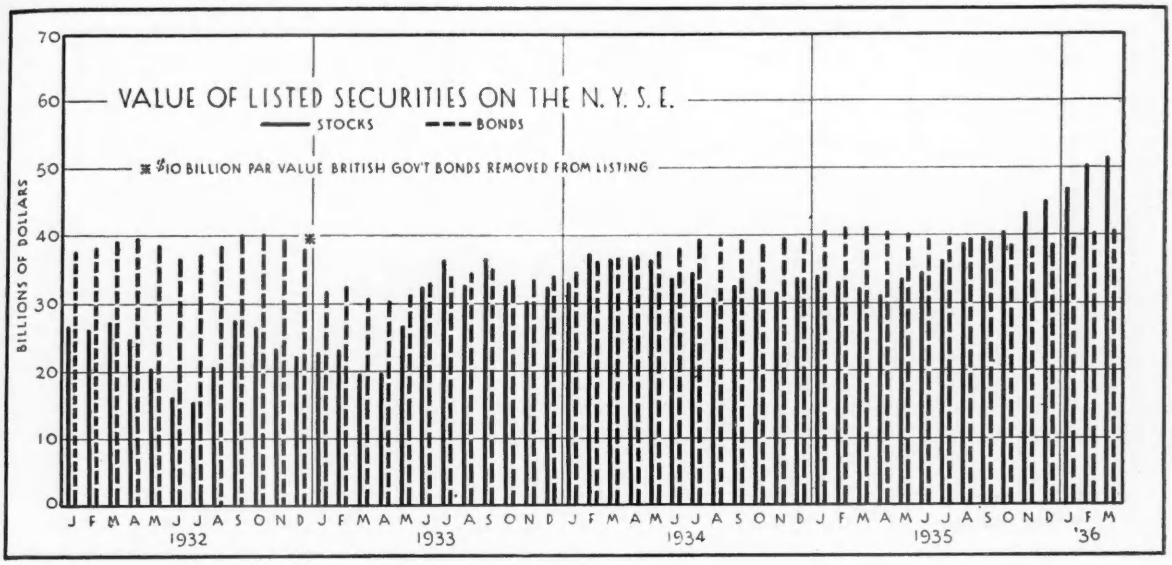


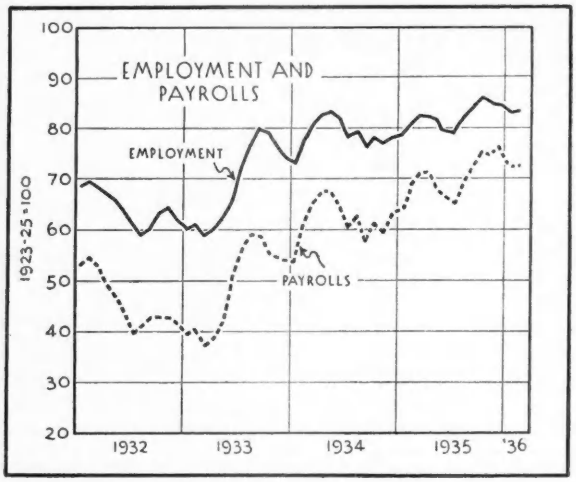


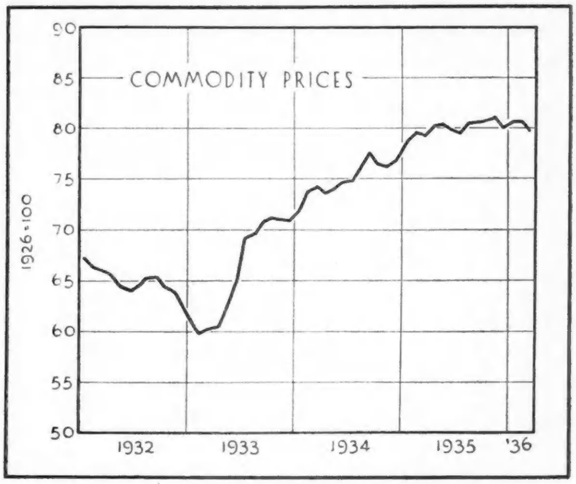


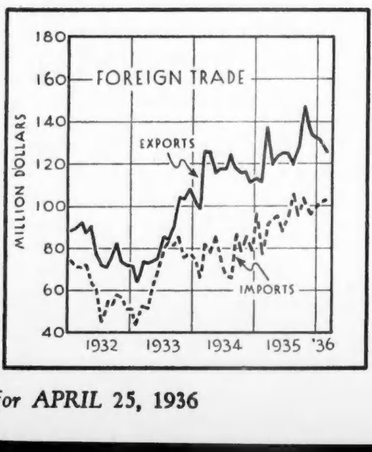


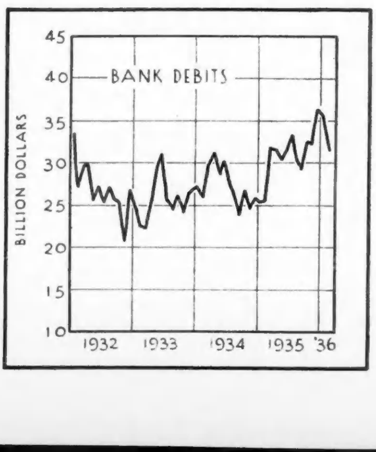
w Far Has Recovery Gone?

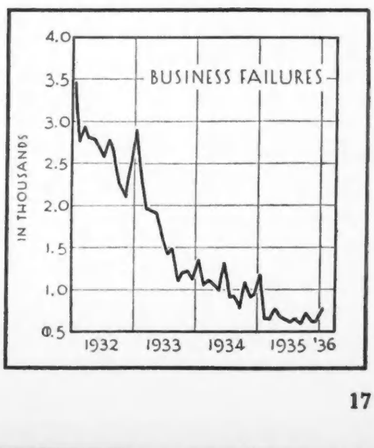












France at the Crossroads

Prospect of Political Upheaval Overshadows Even Impending Financial Crisis

By George Berkalew

Foreign Representative of The Magazine of Wall Street

MY sixth-grade geography, with sweeping finality, characterized the French as "a gay people, fond of dancing and light wines." The traditions, culture and subtleties of the national character were passed over with sublime unconcern. A more mature but perhaps equally superficial conception of French civilization is expounded in novels and musical comedy, depicting the mundane antics of perfumed women and monocled gentlemen in compromising situations. During the post-war period, France has been caricatured as a composite character of Midas, Shylock and Simon Legree.

Between Crisis and Catastrophe

Needless to say none of these characterizations quite fits the France of today. Certainly in this precarious moment prior to the elections, France is neither in a gay nor dancing mood. With the political upheaval of the present, it is not the moment to moon over the sweetness of apple-blossom time in Normandy or to indulge in the emotional romanticism of triangle drama. "Parlez-moi d'amour" as an exponent of French sentiment is definitely "fini." As for light wines, the pertinent statement of Ambassador Claudel at Washington, applies: "In the little moment that remains to us between the crisis and the catastrophe, I may well offer you, gentlemen, a glass of champagne."

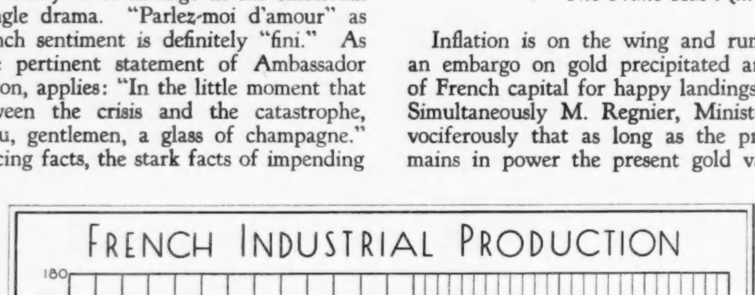
The French are facing facts, the stark facts of impending financial collapse, of internal factional strife, of the external peril of an unfathomable Germany, and an equally unfathomable England. The pedicament of France is understandable; hence, Midas sits avariciously on a war chest of 65 billion francs of gold, Shylock demands the last pound of flesh from the Locarno treaty and Simon Legree flourishes the whip to intimidate the German people into some sort of permanent military and economic submission.

The first stark fact is finance. The last balance sheet of the Bank of France published shows that between the 21st and the 28th of March, the portfolio of commercial paper was stuffed with 1,133 million francs. Short term Treasury bonds discounted at the Bank of France amounted during the month of March to 3 billion francs. Note circulation which fell to 80 billions at the end of February, rose to over 83 billions during the following month. Despite a balanced budget on paper, the Government by a legerdemain has slid into the extraordinary budget from 2 to 3 billion francs of normal expenditures; has conjured from the State Bank 5 billions under Flandin, 3 billions by the British loan, and 6 billions by the latest Parliamentary authorization. The short-term debt, first arbitrarily to be reduced by decree to 10 billion francs, was authorized by the present Government to stand at 15 billion francs, is now officially acknowledged at 21 billions.

The Franc Has Nine Lives

Inflation is on the wing and rumors of devaluation or an embargo on gold precipitated another series of flights of French capital for happy landings in foreign investment. Simultaneously M. Regnier, Minister of Finance, barked vociferously that as long as the present Government remains in power the present gold value of the franc will remain intact.

The franc apparently has nine lives. Official reassurance repulsed the latest attack on the currency and devaluation has for the moment been forestalled. Technically the position of the franc is impregnable. Psychologically the monetary position is vulnerable; subject to political whim—and the potenial panic following a strong popular front majority. Moreover,



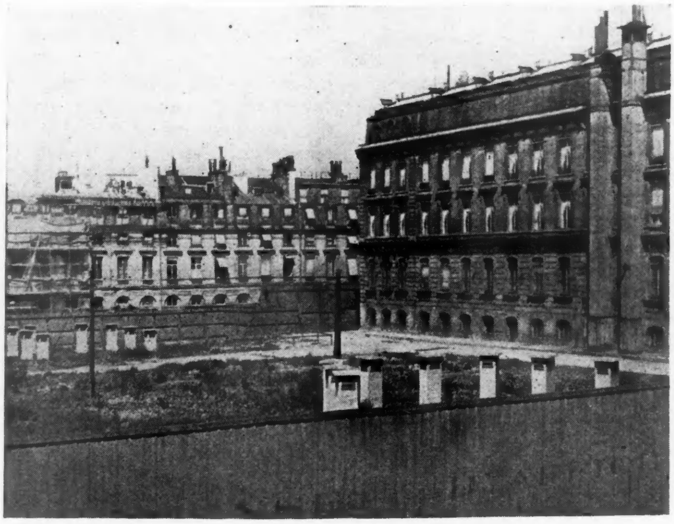
this psychological factor appears to be growing more oppressive rather than improving, despite a substantial loan from England and a more recent one from Holland. The Bank of France has lost the franc equivalent of $180,000,000 from its gold reserves in the three weeks ending April 11, and the long expected devaluation is apparently inescapable soon after the forthcoming election, if not before it.

To make matters worse not only the monetary but the economic situation is critical. With the traditional lethargy, a population of cafe-sitters entertained between 1929 and 1932 the illlusion that the world crisis could be avoided. In 1934 and 1935, over his "aperitifs" the man in the "bistro" had been lulled into the belief that another miracle will providentially increase world prices to the level at which French industry can compete. This miracle did not materialize in 1934, it has not yet materialized in 1936. It is true that a certain revival in business activity is evident since the turn of the year. Business sentiment is more optimistic, carloadings are up, the turnover tax shows a slight gain, employment has ceased to decline and forward orders in several key industries are more reassuring than in previous months.

Electoral Illusions and Economic Realities

But let us not confuse electoral illusions with economic realities. In France the cupboards are bare; stocks of finished and semi-finished merchandise have been depleted. Armament orders have stimulated activity in the heavy industries and public works projects, financed by Treasury notes, have given a momentary but artificial illusion of economic revival. These two factors have contributed as well to check the decline in unemployment, but it must be remembered that there are many people in France who because of pride or lack of privilege fail to be numbered among the recipients of State patronage. Hence unemployment statistics in France are not comparable with either those of Great Britain or the United States.

Still the government persists in fostering the pre-election illusion of economic stability and the possibility of prosperity with patience. The illusion ignores the fact that taxes constitute the main sources of revenue for the State and that taxation has practically reached the point of saturation. Illusion ignores the fact that faithful devotion to the gold standard has necessitated an accelerated rhythm of state borrowing at the ruinous cost of between 5 to 6 per cent on debt service. Illusion ignores the fact that a rediscount rate of 5 per cent is a capital punishment which breaks the market for government securities and stifles commercial credit. Overlooked are the growing symptoms of what is popularly termed the "hausse de misere" tangibly evidenced by straggling lines of individual bankrupts cashing in at the national pawn shop aristocratic heirlooms, mattresses and kitchen utensils.



Wide World Photo

The surface view of the famous subterranean gold vaults of the Bank of France

The punishment of capital is not only individual but corporate. French industries burdened with excessive overhead charges and paralyzed by the depression have sold their idle equipment to new enterprises. A belated attempt is being made to rationalize and revitalize the industrial structure which so long has shunned invigorating foreign competition behind the snug shelter of high tariffs and protective quotas. The export industries have been able to survive by a dumping process abroad, sucking their profits from the high prices paid by domestic consumers and subsidies appropriated by the government. The result has been an increase in the average wholesale price index from 334 in 1934, to 377 in February, 1936; retail weighted price index from 420 to 454. Simultaneously, the cost of living climbs faster than in England or even in Belgium where belga devaluation has had a year's trial.

Economic Isolation Impossible

The logical outcome is obviously French autarchy. But autarchy in France despite economic equilibrium between agriculture and industry is impossible. National isolation is impossible for the reason, that the country is dependent on foreign sources of supply for copper, oil, cotton and other basic materials. It is true that attempts to dragoon industry and agriculture under an economic dictatorship, such as exists in Italy or Germany, or even under the "it hurts me as much as it does you" discipline in the United States have failed.

Still the fabric of industry in France is by no means a series of individual patterns. On the contrary, the design, without regimentation, has been both horizontally and vertically integrated. This integration is not only national but international. The cartellization of French economy constitutes a movement which has developed rapidly in the past and is likely to encompass a broader scope in the future. For example, the European steel cartel includes interlocking activities in France, Germany and Belgium; the chemical cartel in France, England and Germany; the rayon combine in France, Switzerland and Italy. The network of international industrial affiliations are more binding than treaties, more permanent than political contracts. For the economic recovery of Europe—for the realization of commercial profits rather than armament deficits—there is more collective security in cartels than there is in Geneva.

Momentarily France grapples with a masse of inconsistent absurdities. The desire to maintain the value of the franc—to effect a rise in prices—to produce a revaluation of agricultural products, to reduce the cost of living index, to

(*Please turn to page* 63)

Significant Foreign Events

By George Berkalew

Foreign Representative of The Magazine of Wall Street

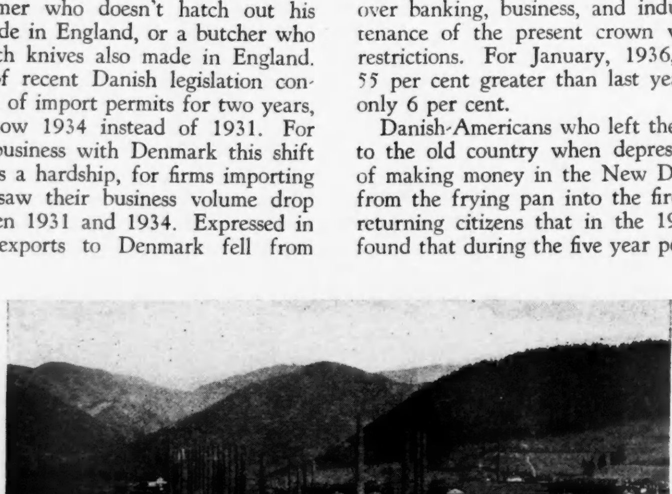
Danish Legislation Reacts on U. S. Trade

The break-down late in March of Anglo-Danish negotiations for the establishment of a trade accord satisfactory to both countries means the further postponement of recovery for England's principal foreign food furnisher. Things have not gone well with Denmark since the Ottawa accord switched a large part of the British butter and bacon trade from the Baltic to the Antipodes. After nearly five years of world depression and Empire competition, Danish farmers are facing the most acute problems in exchange control, import restriction, and payments. To reconquer British markets they are being forced to enter a treadmill of barter agreements, shifting where possible their purchases from other countries, especially from the U. S. to England.

So far as Denmark is concerned, Britain is playing the part of the plutocrat who refuses to buy his provisions from a grocer who fails to make delivery in trucks made in England, from a farmer who doesn't hatch out his chicks in an incubator made in England, or a butcher who doesn't slice his hams with knives also made in England. This is the significance of recent Danish legislation continuing the existing system of import permits for two years, but the basing year is now 1934 instead of 1931. For Americans trying to do business with Denmark this shift from 1931 to 1934, means a hardship, for firms importing from the United States saw their business volume drop nearly 70 per cent between 1931 and 1934. Expressed in gold dollars, American exports to Denmark fell from $38,708,000 to $11,025,000, while at the same time British firms approximately held their own. After slack years in 1932 and 1933, British exports to Denmark rose in 1934 to $54,658,000 compared with $54,907,000 in 1931. The percentages are more important than the absolute trade figures, for between '31 and '34, American exports to Denmark dropped from 10.5 per cent of the total Danish importations to 6.1 per cent, while British exports climbed from 14.9 to 30.1 per cent (1931 equals 100).

Good business for England—but there are other elements to the problem. Danish costs are tending to rise, and the government has had to take drastic measures to hold the wholesale index at 126, such as limiting imports of building materials and stopping construction operations at the risk of swelling the unemployed. This was in order to curb a home-building wave which tended to drive prices higher, force the cost of agricultural produce up, and thus further reduce the chances of selling overseas. Denmark's problem, after four years of fairly close adherence to the pound sterling parity is in some ways that of Belgium before devaluation a year ago: costs have been reduced to a minimum, and still foreign buyers abstain. Cutting down the foreign exchange rate offers an easy solution. When, however, Danish elections were recently held, voters were presented with the idea of a further devaluation and refused it. In Denmark, the man on the farm through his vote is telling the financial expert what to do. Democracy is imposing further control over banking, business, and industry, and dictating maintenance of the present crown value and existing import restrictions. For January, 1936, the import surplus was 55 per cent greater than last year. The exports improved only 6 per cent.

Danish-Americans who left the United States to go back to the old country when depression limited their chances of making money in the New Deal find that they jumped from the frying pan into the fire. So numerous are these returning citizens that in the 1935 Danish census it was found that during the five year period 1930-1935 the population had advanced by 0.86 per cent instead of by 0.62 per cent as during the previous five-year period, even though births were down and deaths up.



Wide World Photo

Big industry among the Austrian Hills

* * *

Italy Supreme in Danube Area

The Rome conversations of the signatory powers of the Rome Pacts of 1934 have given Italy the opportunity of again asserting her interest in European politics, in particular in the affairs of Central Europe. During January and February of the current year, France

made a new effort to get Central Europe well in hand by supporting Czecho-Slovakia in trying to bring the Danube powers into closer collaboration. Witness the visits of Stahremberg, King Carol, Prince Paul and Hodza in Paris. Although insinuations were made that the stumbling block of a re-establishment of the Hapsburgs could be avoided, no actual understanding was reached and Austria turned without delay to Rome.

But Austria did not agree with a proposed re-establishment of the Hapsburg monarchy sponsored by the Soviets. With the occupation of the Rhineland, Austria feared a renewed threat from Germany—France demurred—Italy came forward with assurances of support. Hungary listened half-heartedly to proposed closer collaboration with the Little Entente. Closer collaboration would mean the renunciation of Hungary's claims to territories taken from her after the war.

For this reason, the Rome conversations acquired much greater importance than they deserved. For this reason also, Italy was suddenly raised to the pedestal of a supreme protector of the Danube area.

Italian interests in this area are more selfish than sincere. With the sanctions squeeze, Italy finds in the Danube the agricultural products which she needs. The fact that neither Austria nor Hungary participates in the sanctions against Italy flatters Fascist fancy. The Italian Press emphasizes an international policy of unification of the three countries: Italy, Austria and Hungary. "The will of 60 million Europeans will be served."

* * *

The Stigma of the Soviets

France through the Soviet alliance has achieved practically the same isolation in the diplomatic world as Germany. All countries shy from a too close collaboration with France. Even Belgium passed up her French military accord which expired March 6, the date of the ratification of the Franco-Soviet Alliance. Poland has cooled down to a mere nodding acquaintance with France, although she affected a warm cordiality in former days. Italy also is aloof since the U. S. S. R. is the most bitter enemy of Mussolini, at least if not the Soviet Government, the Third International. The present increase in the prestige of Italy through the weakening of sanctions and the Rome pacts, has dealt a hard blow to the policy of the Komintern.

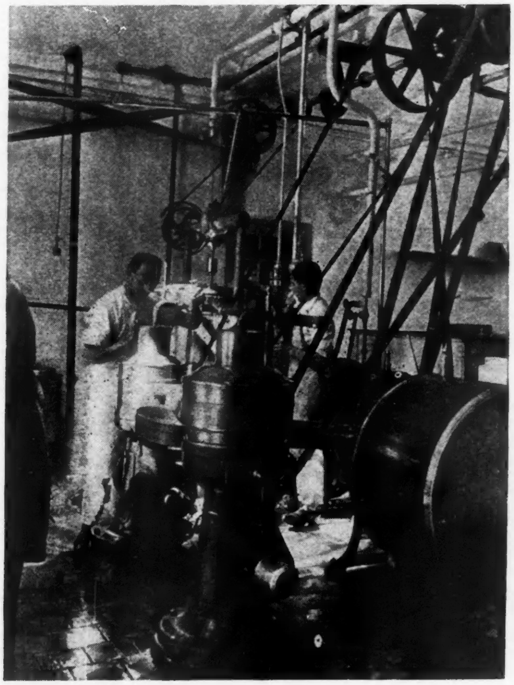
Likewise, Yugo-Slavia who viewed with distrust the active role proposed for Russia, is only too pleased to see Italy take the front stage in the Danubian problem. Besides, Yugo-Slavia panders to British policy, with an exposed Dalmatian coast line; economically, Yugo-Slavia has considerable interest in keeping on good terms with her German customers, particularly since her commercial treaty with Germany is now under negotiation for renewal.

Significant is the careful attitude adopted by France, toward introduction of compulsory military training in Austria on April 1. This strange reserve is inspired by the hope that Austrian conscription will ultimately contribute to the force of France against Germany. But this possibility is more of a hope than a certainty. France with the diplomatic world aligned against her has prudently abstained from proclaiming the violation of the Saint Germain Treaty. After Locarno, shouts from the house-tops were to be expected. Hungary is likely to follow the lead of Austria in remilitarization to the terror of Rumania, but with the tacit support of Rome.

* * *

Another Credit Anstalt?

The most acute phase of the last world crisis was started in Vienna with the crash of the Austrian Credit Anstalt in 1931. Late this March, a few weeks after the final settlement of the "live claims" issue with American, British and other foreign creditors of the defunct bank, Vienna startled the European financial world with another scandal. The Phoenix Life Insurance Co. of Austria, with ramifications all across the Balkans and throughout Central Europe, was shown to be in the hole for 250,000,000 schillings, or about $50,000,000. Deficits averaging 50,000,000 schillings had been piling up across the past five years although the true state of things had been concealed from the public and even from the state by complacent officials.



Genareau Photo

Modern equipment making butter in Denmark

As the loss finally reached an amount equal to half of the company's total capitalization, and payments on foreign reinsurance could not be met, concealment could no longer be arranged. A high government official committed suicide, a director of the insurance company died under circumstances supposed to be mysterious, and in the compilation of the balance for the year 1935 it was at last revealed that the company was bankrupt. At first the losses of the Credit Anstalt were not estimated to be much more than those of the present failure, and only gradually attained their full proportions. It is anticipated in Vienna that the total loss of the Phoenix may also multiply as investigations continue, and may eventually touch $100,000,000.

To cover the scandal Viennese statesmen released prematurely a diplomatic bombshell which successfully distracted public attention. They announced that Austria was through with the Treaty of Saint Germain and that from now on the Danubian Republic, like Hitler's bigger state, was to take the road of unrestricted rearmament and conscription. Based on the three party conferences at Rome the week before, this announcement was sure to have Italian approval, and was equally sure to throw the Little Entente into a towering passion. Czecho-Slovakia especially has

(Please turn to page 62)

How New Taxes Affect Investment Selection

Social Security and Undistributed Earnings Taxes Fall Unevenly on Various Types of Companies

By J. C. Clifford

SAY what you like about the "New Deal," good or bad, there is one point on which everyone must agree: it has provided a lawyers' and accountants' paradise. Think of all the suits that were filed because of N R A and A A A; sympathize with the accountants whose heads have turned grey trying to figure new bookkeeping systems to conform with regulations under these Acts, the Act that gave birth to S E C and the host of other changes and innovations with which business has had to contend. It has all meant increased expense, of course: expense for the most part shouldered by the myriad stockholders of our larger corporations, for it is against these that the main attack has been directed. And now the investor is asked to figure the possible effects of two radically new departures in the field of corporate taxes.

All Corporations in the United States

(Treasury figures. 00,000,000 omitted)

	Net Operating Income	Total Taxes Paid	Dividends Paid	Undistributed Income
1921	$5,3	$2,2	$2,7*	—2,7
1922	9,8	2,3	2,6	1,7
1923	11,7	2,6	3,3	2,5
1924	11,0	2,6	3,4	1,6
1925	13,5	2,9*	4,0	3,0
1926	13,9	3,1	4,4	2,3
1927	13,4	3,1	4,8	1,1
1928	15,6	3,4	5,2	2,5
1929	16,4	3,4	5,8	2,3
1930	9,2	3,0	5,6	—4,3
1931	4,0	2,6	4,2	—7,3
1932	1,0	2,4	2,6	—8,0
1933	3,7	2,5	2,1	—4,5
Total	128,5	36,2	50,7	—9,7

* Partly estimated.

Social Security Taxes

The first of these are the Social Security Taxes, in effect already. The second is the new corporate income tax, today in process of emerging from Washington's legislative machinery. Both taxes are of moment not only because they, like all levies to pay the cost of government, are a business burden and handicap, but because they do not fall upon all companies with equal impact. They thus influence an investor's selection of securities and become still another factor which he must take into consideration.

Current payments under the Social Security Law are confined to the employer. Every employer of eight or more persons should be setting aside 1 per cent of his payroll for the tax collector; next year calls for 2 per cent, and 3 per cent will be demanded thereafter. This is for the purpose of financing the unemployment part of the scheme. In addition to this, there is the old-age pension part. This is to be financed by both employer and employee. Limited to the first $3,000 of annual wages, every employer and employee alike will be assessed 1 per cent for the years 1937-1939, 1½ per cent for 1940-1942, 2 per cent for 1943-1945, 2½ per cent for 1946-1948, and 3 per cent thereafter. In other words, under the present law, employers will ultimately be called upon to pay to the Government an aggregate of 6 per cent of their payroll.

At first sight this may not seem particularly serious, but when it is realized that it is not unusual for a company's payroll to run more than 50 per cent of gross sales the matter is seen in a different light. The manufacturing company average may well be above 40 per cent. If, for example, there were a company carrying 10 per cent of its gross sales to profit and assuming it were impossible to raise selling prices, a 6 per cent payroll tax on the basis that the payroll takes up 40 per cent of gross, would mean a *decrease* of 24 per cent in earnings. If the same company were accustomed to earn only 5 per cent on its gross sales, a 6 per cent payroll tax would almost cut its earnings in half.

Where Labor is a Big Part of Output

It is apparent that the types of company to be most affected by Social Security are those whose wage bill is greatest in proportion to the value of their product and, conversely, those least affected will be those whose total wages paid are smallest in relation to the value of the product. Companies making precision instruments, machine tools, airplanes clearly fall into the first category while those in chemicals, petroleum and meat packing are in the second. One would naturally expect Douglas Aircraft, for example, whose output is hand-built and almost individually designed to be harder hit than any of the big Standard

Oils whose output is so largely an automatic process.

On the other hand, this mention of "automatic process" introduces the possibility of Social Security having certain secondary effects not at first obvious. If those companies employing relatively few men are going to be in a better position than those with a relatively large payroll, it is a reasonable expectation that each individual company will attempt to attain the status of the first group so far as possible. This means increased buying of all kinds of labor-saving machinery and office equipment, with the result that these industries which might otherwise have been adversely affected by Social Security by virtue of a high labor-content in their products, will instead be beneficiaries.

Then, again, as is the case with any prospective increase in expenses, it is essential in connection with the Social Security taxes to give some consideration to the price elasticity of the company's product: in other words, the chances of passing the tax along to the public in the form of increased selling prices. Some enterprises can do this much more easily than others and without the loss of any great volume of business. Some would lose so much volume were it attempted that they, or rather their stockholders, will be obliged to absorb the greater part of the tax. Yet other companies, like the railroads and the public utilities, operate under an inelastic price structure because of some law or political body which regulates them.

Let us turn now to the new corporate tax; details are not yet fixed by legislation, but principles have been indicated in congressional debates and hearings. The proposed taxes represent an entirely new departure from the principles that have guided previous corporate taxation. The existing corporate income tax is to be repealed, together with the capital stock and excess profits taxes. To take their place there is to be imposed a graduated levy on that part of a corporation's earnings that are not distributed in the form of dividends. At the same time a recipient will pay ordinary individual income tax on dividends that he is fortunate enough to receive.

While this is another of the New Deal's "share-the-wealth" schemes, no attempt will be made here to appraise its broad, social and economic aspects; nor do we stress the point that it will almost certainly not raise the revenue expected of it; we are concerned with the possible effects upon the individual investor. The first point to be made is that the proposed plan is likely to be easier upon the little stockholder than upon the big. True, the little stockholder will pay 4 per cent on his dividends, but these may well be considerably larger than they otherwise would have been by virtue of the eliminated 15 per cent corporate income tax and because of the likelihood that the heavy imposition on retained earnings will undoubtedly act to make companies distribute a larger part of their profits. On the other hand, the big stockholder will pay the 4 per cent normal tax on his dividends and if his dividends become considerably larger they might push his surtax net income into still higher brackets; he would probably prefer to see a reasonable portion of the profits retained in the business.

The effects of the new tax plan upon different industries and corporations are complex. It would seem that those industries, whose custom it is to pay out all or almost all their earnings in dividends, would not be unfavorably affected. For example, present proposals are that a company would be able to retain up to 20 per cent of its net income and pay a tax of only 9 per cent on the *total* net income, or slightly more than half what it would pay today. On the other hand, should a company elect to conserve more than 20 per cent of net, the tax on total net income advances to as high as 42½ per cent. Most of the public utility companies distribute by far the greater part of their net, so that they would not be called upon for an abrupt change of policy. Mining companies are also in this category. Many specialty companies, which apparently do not wish to accumulate any great reserves from this point and are unattracted by dreams of extensive expansion, are in the same class, or could place themselves in it without inconvenience. Such companies as Beech-Nut Packing, Wrigley, the three snuff companies, American Snuff, Helme and U. S. Tobacco; General Foods, Standard Brands and a host of others. It will be noticed that all these companies are dealers in consumers' goods and it seems that the general rule might be laid down that companies in this class are likely to be beneficiaries of the new tax plan. Beneficiaries also are those companies currently distributing more than they earn—American Telephone & Telegraph and the Borden Co., for example.

For companies in the field of producers' goods, the new taxes are going to be a source of many headaches. Consideration must be given to the fundamental point that business in this field is subject to wide fluctuations. Shall a company seek to guard against a storm that it knows is coming sooner or later by building up a cash surplus, and paying very heavy taxes for the privilege of doing so, or shall it take a chance that it can borrow when the need arises? Or, should it try and avoid both difficulties by paying out almost all its earnings in dividends and then attempt to get the money back into the treasury by offering rights and selling more stock to stockholders? Although the latter is a possible course, it would certainly lead ultimately to a gross over-capitalization. Then, supposedly the company could de-split its stock and come back to its original capital structure.

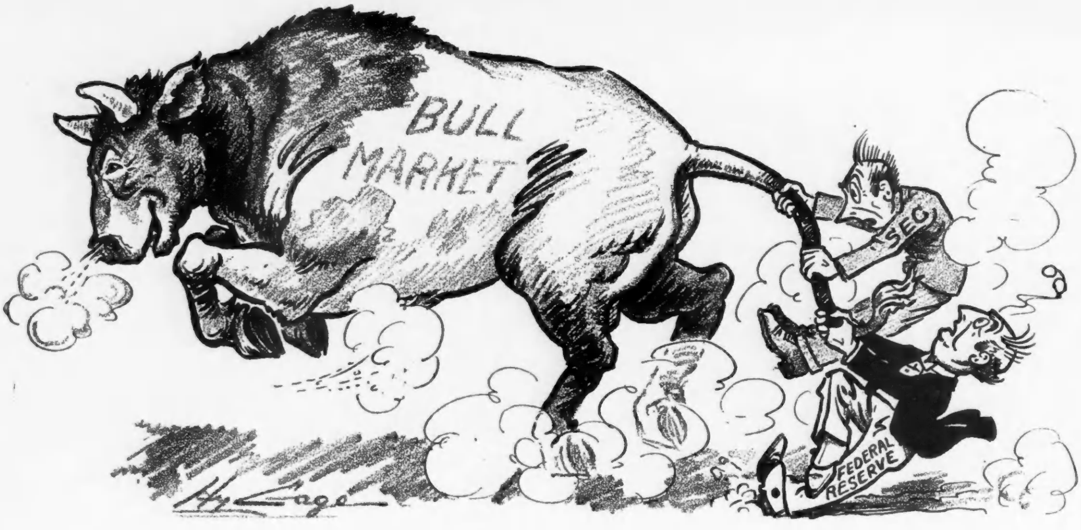
It is presumed, also, that expansion would be financed in the same way—by offering rights to common stockholders. But what about the company whose common stock is selling for very little; it would have to issue bonds or borrow from the banks. And in this case it would be soaked heavily when the time came to retire the debt. Then, too, there is an added complication for those organizations that are obliged by law to *(Please turn to page 58)*

As Manufacturers View the Corporate Earnings Tax

By Noel Sargent
Secretary and Economist, National Association of Manufacturers

The proposal to tax undistributed corporate income is an additional effort to establish government regulation of industry, since it is based on the arbitrary assumption that there exists a standard percentage of corporate earnings which should be kept as reserves, beyond which there should be a special tax burden; if the government can adopt one standard at one time it can change this standard at any other time.

If such a proposal results, as its sponsors hope, in increased distribution of corporate dividends, the result will be to artificially increase stock prices in eras of prosperity. Depleted reserves would result in lessened dividend distribution in times of depression with sharper decreases in stock prices during depression than have occurred since 1929—in other words, the result would be greater variation of both highs and lows in stock prices.



¶ *Are today's markets subject to different influences from those which preceded it?*

¶ *Have margin requirements, S. E. C. regulations, income tax and investment demand, altered the potentialities for severe reaction?*

In Recovery, Boom and Panic

By Morton Thorndyke

ANALYSTS of long experience ponder the virtually unprecedented rise that the stock market has had over the past year—without any substantial increase in speculative borrowing—and come to conclusions as far apart as the poles.

"It is a new kind of market," say some. "Because of high margins and the S E C curbs on manipulation and insider operations the old-fashioned intermediate reaction as a purely technical phenomenon has been legislated out of existence."

"There are some differences," say others, "but also many similarities. Human nature does not change and, despite restrictions, speculation tends increasingly to become over-confident in a bull market. The chances are this market is building up for a bigger and better let-down."

A third group, very considerable both in numbers and demonstrated keenness of perception, say: "Of course this market differs from the old bull markets. The most important difference is that it is the most artificial market we ever had! Why? Because the whole thing—and business recovery too—rests entirely on the Government's inflation of bank deposits. The Government holds the strings in infinitely greater degree than any private manipulators ever did in the past."

Well, let us check these varying opinions and see for ourselves.

First, be it noted that there is *no* difference of opinion as to the basic trend, whether its foundation is so-called natural economic recovery, the New Deal's policy of budgetary inflation or the combination of the two. There is not only agreement that the underlying movement of equity values is upward but that it will continue upward for an indefinite time—probably for a year or two, possibly for three or four years.

If that is so, would it not be foolish for either the investor or the far-sighted speculator to waste mental energy—and incidentally risk losing a profitable position—by attempting to guess the imminence of the next reaction and the scope thereof?

Compared to the long swings of the market, either now or throughout the past, reactions in bull movements and

rallies in bear markets are but ripples in the tide. As measured by the weekly index of THE MAGAZINE OF WALL STREET, the composite advance from mid-March, 1935, to early April of this year was 120 per cent. During this entire period there was a reaction of 7 per cent, during the week ended June 1, 1935; another of 4 per cent during the week ended August 24; one of 5.5 per cent during the fortnight ended September 21; and another of 4 per cent in the week ended December 14. Each was precipitated by external news developments.

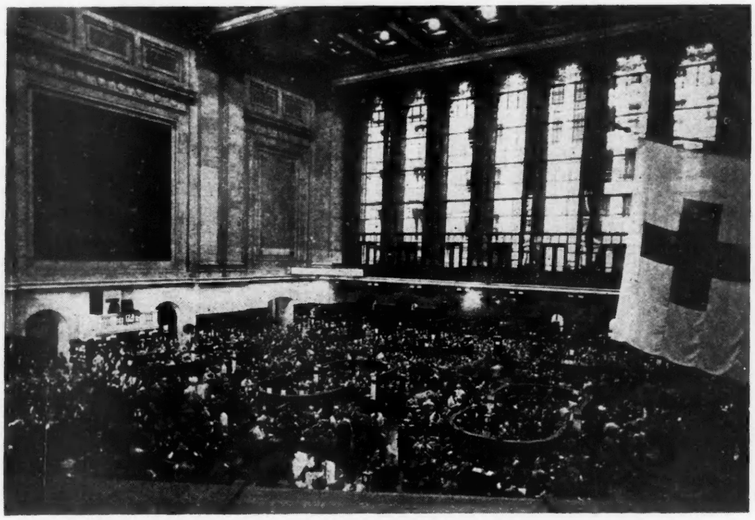
Bearing in mind that no one could hope to guess the precise tops and bottoms of these minor downturns, why gamble on ripples that represent small change, compared to the net advance of 120 per cent over the year?

In older bull markets there is no record of so great a percentage gain in a similar period of time, but it must be remembered that the advance began on a very low price base, thus exaggerating the percentage comparison. In the same manner of calculation one can truthfully say that construction is 100 per cent ahead of a year ago, but a year ago it was no more than 13 per cent of normal!

There have been longer advances on a much higher price base. For example, the market went up for a little more than two years, or from May 15, 1926, to June 2, 1928, for a net gain of 70 per cent, with only three reactions of more than minor technical proportions over the entire period and those amounted, respectively, to only 9 per cent, 8 per cent, and 7 per cent, in this publication's index. That phase was terminated by a 15 per cent shake-out.

Thus, one approaches a job of hair-splitting in comparing the maximum reaction of 7 per cent witnessed since March 23, 1935, with the maximum reaction of 9 per cent experienced between May 15, 1926, and June 2, 1928.

Moreover, reliance on generalization in determining investment or speculative policy is an exceedingly dangerous thing. No two depressions are precisely alike. No two recoveries are precisely alike. No two bull markets are precisely alike. Usually, however, reactions induced by purely internal or technical factors tend to become more severe in the late stages of a boom, when speculation is getting more and more out of hand, than in a middle phase of recovery such as the present.



© N. Y. Stock Exchange

Activity on the floor of the New York Stock Exchange

The first phase of the present bull market, in 1933 and 1934, was abnormal in the number and severity of its reactions because the conditions confronting investment and speculation were abnormal and confusing. All eyes were glued on the monetary and economic experimentation centering in Washington and the resultant flood of regulatory legislation. Following the first upswing, the Dow-Jones industrial "average" declined approximately 23 per cent in July, 1933, and the rail average about 26 per cent. Between August 21 and October 22 of that year the rail average dropped some 40 per cent, or far more than the commonly accepted proportions of an intermediate reaction, which is usually considered as amounting to between 15 and 20 per cent. Between September 17 and October 22, 1933, the industrial average had a second drop of 21 per cent.

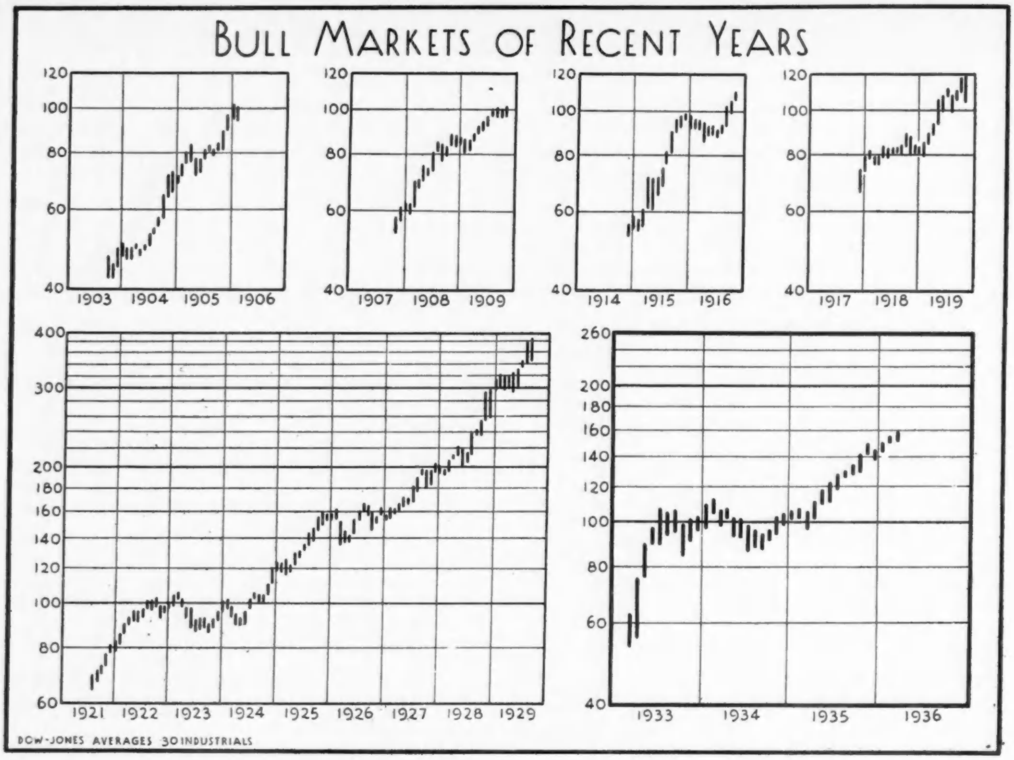
In 1934 the market was confronted not only with disappointingly slow progress in economic recovery but had to accustom itself gradually to the new machinery of S E C control, then an experimental and therefore unknown factor. The result was an erratic market trend in all major groups. Indeed, as measured by our composite index, the market ended 1934 almost precisely where it began it, and at the low point of March, 1935, was actually no higher than the level attained in September, 1932, in the first spasmodic rebound from the absurd bear market lows at which not a few stocks were selling for less than the cash behind them.

In one sense, therefore, the present bull market really started in March, 1935, and has run but little more than a year.

Again, speculating on the "averages" is risky business at best, for there is nothing whatever in the results of S E C restrictions or high margins to force any stock or group of stocks to move with a selected average, whether that average be composed of a limited number of market leaders, as is the Dow-Jones industrial average, or a broad list of stocks, as is the index of this publication.

Thus, while it appears a tenable assumption that high margins—55 per cent against a former average no more than 25 per cent and often considerably lower—and S E C curbs on manipulation will tend to curtail the scope of purely technical reactions, as compared with those in former bull markets, there is nothing whatever in the present set-up to preclude reactions of intermediate or even greater proportions in either individual stocks or groups—and, after all, one buys or sells individual stocks and not the "average." A surprisingly large number of stocks have not participated in the 120 per cent average advance shown by our index in the past year, having "topped" out in July, 1933; and during the past year both the rail and utility groups have experienced normal intermediate reactions.

So far as concerns the purely internal status of the market, there can be no doubt that the 55 per cent margin requirement, the drastic limitations on pyramiding and the curbing of manipulative practices tend strongly to maintan a healthier position than prevailed in former bull markets. The minimum margins required by the Stock Exchange are less drastic than the Federal requirement, which means that the broker is not required to ask additional margin if the speculator's equity drops under the 55 per



cent figure. On General Motors around current levels, for example, the margin under the Federal Reserve Board rules would be approximately 31 points. Brokers would hardly demand more margin unless the issue dropped from the present price of 70 to somewhere under 50. Hence, there is a much broader cushion of safety than formerly existed, with the result that speculators have little to fear in reactions of 10 to 20 points which formerly would have automatically produced considerable forced selling. The restrictions, or course, work both ways. If a stock advances 10 points the trader holding 1,000 shares has a paper profit of $10,000 but since the 55 per cent margin must be maintained he has only $4,500 with which additional commitments may be made.

It need hardly be said that nothing in this speculative "New Deal" precludes sharp reaction precipitated by outside news developments. Indeed, some market students believe that the very restrictions which safeguard the market from internal upsets must necessarily tend to make it more vulnerable to external upsets, for a market of restricted speculative activity is *per se* a thin market and hence responds sensitively to relatively moderate changes in the volume or selling or buying.

Those who hold this view wonder what would happen if the market were called upon overnight to absorb some shocking catastrophe. The essense of shock is total surprise, and it is not possible to forecast the totally unexpected. Nevertheless, the only great shock that we can imagine would be a European war. Since the aftermath of 1914, with its boom in business and stocks, is still remembered by speculative minds, it is to be doubted the shock would be as severe as it was at the outbreak of the World War. Whatever its severity, trading on our exchanges—if necessary—could be instantly suspended until hysteria passed.

In this connection, moreover, it is worth pointing out as one of the interesting characteristics of the present market that for the past year it has shown itself extraordinarily immune to outside disturbances, regardless of the "thinness" of the list.

For the absence of "organized support"—which, incidentally, never changed a trend—and the absence of active short selling and a huge volume of speculation generally, for all these things there are compensations. If the list is "thin" on the buying side in periods of outside disturbance it is also "thin" on the selling side. Economic and monetary considerations, as reflected in investment buying or selling, determine the longer swings of the market. Speculative considerations usually determine the short swings. The more sober the speculation—in point of volume and adequacy of margins—the less violent should be the short reversals of the main trend.

In the opposition focused against S E C legislation in 1934 no argument was more insistent than the warning against what would happen in a "thin" market. On the evidence of the past year, the technical benefits of active speculation in the old days appear to have been greatly overrated.

One definitely new thing in this market is the manner in which stocks move up or down after earnings reports are issued. In former markets the buying of insiders would lift a stock well in advance of the date of issuance of a favorable earnings statement and speculative profit-taking on publication of such news would often result in a temporary reaction in the issue. The S E C restrictions on market operations of corporate officials and large shareholders, together with attendant publicity, are chiefly responsible for this change in market habit.

Again, our Government's policy of taxing capital gains as income tends today to support high stock prices even more than was the case in the last boom, the reason being simply that income taxes in the higher brackets are far stiffer than they were in the 1924-1929 bull movement.

A wealthy man—but less wealthy than scores of other

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The conquering forces of hostile nature, loosed by our own carelessness, are already so far advanced, that unless they are stopped in their tracks within twenty years, the United States has not more than a hundred years of existence as a first-rate power.

The Menace of Erosion

By THEODORE M. KNAPPEN

THE rain fell on the roof of a new barn in Stewart county, Georgia, fifty years ago. The water ran into the "valley" where gables met, collected into a stream and fell, gutterless, to the ground. Soon a pit was excavated in the friable loam, and then a little channel began to wear into the soil taking away the runoff from the pit.—When this "little water" started a schoolhouse stood nearby. If it were to be restored today it would stand on stilts 200 feet high.

From this gully and other gullies in the same county and four nearby counties in Alabama, 470,000 acres of topsoil and subsoil have been swept away. That's erosion.

These 470,000 acres can never be tilled again—practically so, because even with erosion chained it will, some scientists say, take Nature 2,800 years to build up another seven inches of topsoil. With all her thrift, she can accumulate, on the average, only an inch of rich soil in 400 years.

Fifty million such acres scalped and gouged of all their productive soil by water erosion scar the vista of the Nation. Virtually all this destruction has been accomplished in 150 years, most of it in the last 30,—although skin-and-move-on was the plantation rule 200 years ago. There are, besides, about 50,000,000 acres on the verge of hopeless ruin. . . . Another 100,000,000 acres are far advanced toward destruction. Virtually all the rest of the country's 600,000,000 acres of tillable land is in a process of slow devastation by wind or water.

In May, 1934, the country at large learned for the first time of another sort of erosion. Soil of Kansas, Oklahoma and other parts of the West was suspended in the air, 10,000 feet up, east to the seaboard and out over the Atlantic Ocean—150,000,000 tons of it. The sun was dimmed. Never before had the like been known in North America. Wind-erosion-dust storms did that.

The winds and the waters have undertaken the devastation of great sections of the United States. The conquering forces of hostile nature, loosed by our own carelessness, are already so far advanced that it has been said that unless they are stopped in their tracks within twenty years the United States has not more than a hundred years of existence as a first-rate power. . . . The incredible poverty of China will be ours. . . . Eroded Italy ravishes Ethiopia. Time may come, as sterility spreads, when gaunt Americans will surge over the borders of their dead and dying land like ravening wolves to seize virgin land to the south, or slowly perish. . . . It requires no regimenting Henry Wallace to take 50,000,000 acres out of cultivation in order to balance the market for agricultural products. . . . Erosion will do the job more thoroughly and far more permanently than he can do it. In another 20 years of declining fertility we shall not

Beating Back Devastation

By H. H. BENNETT

Director of U. S. Soil Conservation Service

Floods in the East and dust storms in the West signal a grim warning to America. Nature writes in havoc and death a protest against the violation of her immutable laws.

Civilization has disrupted natural balances—stripped away the mantle of vegetation which protected the soil from the wash of rain and anchored it against the sweep of prairie winds.

Soil erosion caused by man has ruined 50 million acres of once-productive farm land for further profitable use. Another 50 million acres is on the threshold of ruination. 100 million acres have been impoverished by the loss of productive topsoil. And now, still another 100 million acres—some of it the best farm land—are threatened.

Neither this nor any other nation can withstand such an onslaught. Abandoned acres mean abandoned homes, forced migrations, delinquent taxes. Depleted fields mean bankrupt farming on bankrupt land. The problem cries for quick and effective solution if the nation is to prosper.

In the hands of the man who tills the soil lies the final responsibility for its husbanding. Farmers must learn how to produce crops from the soil and conserve the soil at the same time. Their economic life is at stake—and so is that of the Nation.

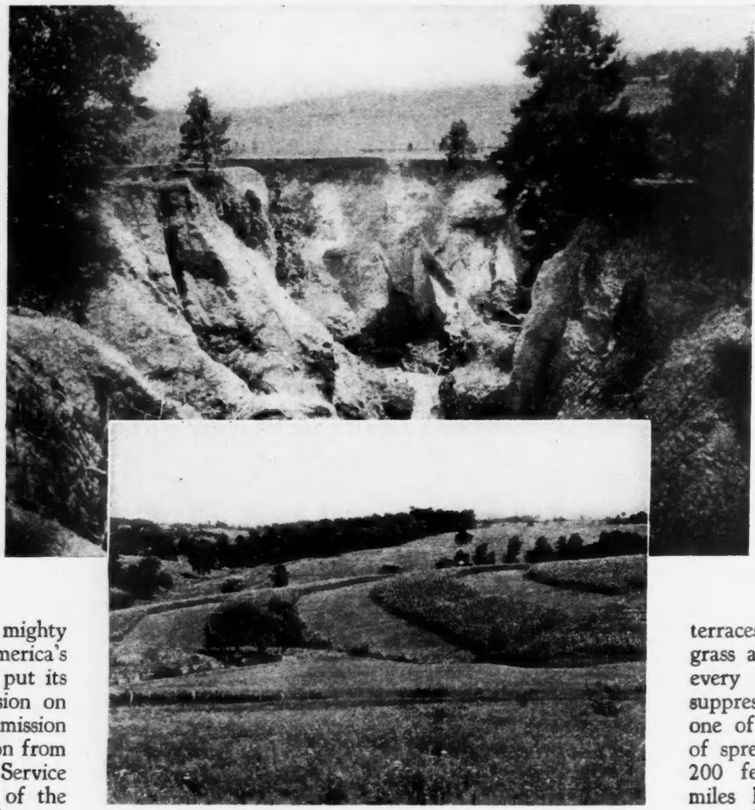
be able to feed ourselves. Already we spend $150,000,000 a year on commercial fertilizers to compensate in part for the $2,000,000,000 worth of fertility that erosion annually tears out of what were the richest soils in the world, even as late as thirty years ago.

Are you skeptical? Well, the hard-headed American Bankers Association is not. It doesn't own any land, but it knows that without productive land there will be mighty little business for America's 15,000 banks. It has put its Agricultural Commission on the job. That commission quotes without question from the Soil Conservation Service the terrifying figures of the ruination that is already upon us in the interests of "protecting investment values in land.

"This is a problem not only for the farmer, but for every patriotic and far-seeing citizen of this richly endowed land." . . . That's what the bankers say. Amen, say merchants, railroads, power companies, insurance companies, etc.

History testifies to the justness of their concern. Impoverished Italy is a hysterical witness. Spain is in large part hopelessly destroyed by erosion. The littoral of the Mediterranean abounds with the ruins of cities and nations which succumbed to erosion. It has been said figuratively that the Roman conquerors of Mauretania and the rest of once fertile North Africa took the luxury of their hot baths at the expense of the life of the land. They cut down the forests for fuel—what agriculture had left; their goats pulled the grass and bushes out by the roots, the soil ran away and blew away—and a dying land succeeded. After the Romans came the destroying Arabs, their camels cleaned up after the goats, and the best vineyards of the Roman Empire were annexed by the Sahara. The climate did not change, but its heat and its winds were given unchecked opportunity to work destruction. Antioch, that gorgeous city of vicious luxury, once the queen city of Syria, lies deep in a desert beneath the debris of erosion. Erosion takes wealth and gives rubbish; stripping the land bare in one place, it covers fertile field elsewhere with sterile silt, boulders and gravel. The bleak dead hills and mountains of Greece are the mournful tombstones of lost fertility. China is slowly dying of erosion, both water and wind.

"There are parts of Asia Minor, of Northern Africa, Greece and even of Alpine Europe where the operation of causes set in action by man has brought the face of the earth to desolation almost as complete as that of the moon," says G. P. Marsh; "The Earth as Modified by Human Actions."



(Top) Gully in Georgia relentlessly devours fertile fields. (Bottom) Protective strip cropping—corn and alfalfa—in Ohio

In every country but particularly in the countries of fierce torridity and extreme aridity and the hilly regions, erosion is an endless threat. Crops cannot be raised in the forest or in soils unstripped of their natural cover of grass; the forests have to be felled, the natural sod has to be broken up. Man cannot, literally, live by meat alone, tillage there must be. Agriculture is an endless compromise. The land must be held by terraces, alternated between grass and forest and tillage; every eroding rill must be suppressed before it becomes one of those ghastly gullies of spreading ruin sometimes 200 feet deep—a hundred miles long. Over a large part of America there never has been any compromise. Man has capitulated in advance. He has asked only five to twenty hillside crops and then surrendered to outraged nature.

All through the Piedmont (Southeast) and other high lands vast terrestrial ulcers have eaten for miles into the soil-integument of the earth, into the tissues of the subsoil, and down to the very bones of the world. One views in many places a stupendous necrosis, the progressive death of the living world. Scarcely a rolling field in all the nation that does not show the yellow and gray spots of soil anemia. There may be no gullies, the fields may be trim and neat but sheet erosion is endlessly at work. Everywhere the plow digs the grave of fertility; even in unbroken lands where no furrow has ever been turned, sheep and cattle have trampled, pawed and rooted through Earth's skin. Always the attrition goes on, but in some years come the great floods and high winds, and then the whole life-giving cover of the land may be torn away. The March floods this year ejected 300,000,000 tons of soil and subsoil. Some of it lodged on other land, some settled in river channels, a third of it went to the sea. In impoverished Italy and dying China men carry the soil back on their shoulders.

For 30 years H. H. Bennett, field marshal of soil conservation, has been preaching the erosion doomsday, as a member of the Department of Agriculture. Six years ago he was authorized to begin the work of salvation. Three years ago he was "lifted" by the Department of Interior for its newly created and lefthandedly named Soil Erosion Service. He came back to the Department of Agriculture last year as the head of its new Soil Conservation Service, bringing his soil erosion service with him. Last year he spent $27,500,000 and flung 140,000 men against the forces

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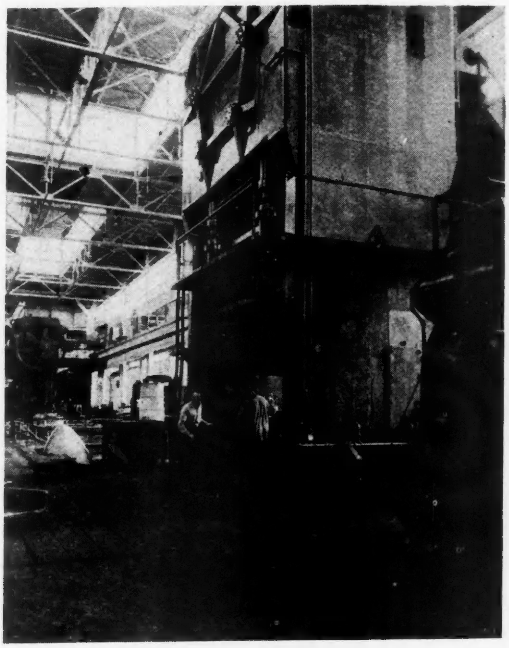
Dollars from Bath Tubs and Motor Cars

Briggs Supplements Position as Leading Auto Body Builder with Growing Stake in Building Industry

By George Hall

PEOPLE talk and write glibly of the automobile *manufacturers;* yet, they were more aptly termed automobile assemblers. Even the largest of them buy a surprising amount of car in a more-or-less finished state from outside organizations. Bodies, tires, wheels, electrical equipment, carburetors, bumpers, frames, even the motor are bought by one or other of the companies described as an automobile manufacturer. Moreover, the automobile industry being what it is, there are among those that cater to it, companies as important in their own right as any but the very largest of the automobile companies proper.



Experience in shaping automobile bodies is turned to advantage in plumbing ware

Such a one is the Briggs Manufacturing Co., whose payroll lists some thirty thousand names. The company's birth was unusual if for no other reason than that it was not the result of a merger; it started business by issuing five hundred shares of stock for $50,000 in cash. Also unusual to those accustomed to the broadness of present corporate charters was that Briggs' business was narrowly limited to the manufacture and sale of automobile body trimmings and equipment and the original charter had to be amended to permit the company to make and sell complete automobile bodies and other wood and metal work. The company's scope has again broadened materially, and quite recently, with its entrance into the field of metal furniture and a big line of plumbing and bathroom fixtures. But more of this later, for the major business of the company is still automobile bodies. And quite a business it is, too, for capacity operations for Briggs in this country would mean the production of well over a million automobile bodies annually, or roughly, enough to supply one out of every three cars coming off the lines.

Briggs' two principal customers are Ford and Chrysler and, as is rather obvious, the main seat of operations is in Detroit where the company has six plants. It also operates a plant in Cleveland and has a new one at Evansville in Indiana, busily turning out Plymouth bodies. Abroad, the plant at Dagenham in England has just been expanded and capacity lifted some 50 per cent. The British Briggs will serve Ford, Ltd., and other British and continental automobile companies. Great things are expected of this foreign subsidiary, despite the fact that certain unforeseen production difficulties were the cause of the American company's recent voluntary offer to pay full interest on the English debentures and 7 per cent on the common stock. Because of the large measure of general business recovery experienced by England, there would seem to be no reason why the bright expectations should not ultimately be substantiated.

While automobile passenger car bodies are Briggs' main line, the company also supplies the automobile trade with gasoline tanks, various parts for truck bodies, all kinds of sheet metal stampings and the like. When the average man looks at a modern automobile, he will not realize perhaps that he is looking at something that has wrought a perfect revolution in the sheet metal trade over the past few years. It was in 1933, possibly a year earlier, that designing departments first hit upon the idea of flanged fenders in order to improve appearance. Every year since flanges have become deeper and then came the all-steel top, calling for enormous dies and presses of unprecedented size.

Now, there is nothing easy about an operation that takes a piece of flat sheet steel and contorts it, without cracking

or wrinkling, into a modern automobile fender or all-steel top. If you think there is, take a piece of light tin and shape it to an iron ball, such as is commonly used as a furnace weight. Or even try and shape without pleating a piece of tin-foil to the contours of a golf-ball. No, the new fenders and tops are anything but easy. It is an operation involving presses of several hundred tons, dies weighing perhaps seventy or eighty tons and much grief in adjustment on the trial and error system by the most skilled in the field. Briggs stands among the best of the new contortionists of steel.

The experience gained by Briggs in shaping metal over a period of nearly thirty years has been the cause of the company branching out into what appears at first sight to be an entirely unrelated line—plumbing, bathroom ware and kitchen equipment.

The similarity between "Brigsteel Beautyware" and an automobile body is that they both originally start as flat sheets and are deep drawn to the required shape. Briggs shapes a kitchen sink, for example, in the same way that an automobile fender or other automobile body parts are shaped. Then a heavy layer of vitreous enamel is applied and fused to the metal to produce a porcelain-like finish. Incidentally, the plumbing ware is a complete line and includes in addition to sinks, bath-tubs, basins and kitchen cabinets, all in various designs and colors. It is formed, however, from rather special sheets turned out by American Rolling Mill under the world-famous trade-mark "Armco."

The great advantage possessed by the new Briggs' plumbing line over old types is to be found in its relative lightness. A Briggs' bathtub, for example, weighs only slightly more than 100 pounds, whereas a similar tub in cast iron might weigh 400 pounds or more. This saving in weight is important from a number of standpoints. There is first of all a saving in freight and handling charges. Then floors do not have to be re-enforced, a particularly important point if the matter is one of re-modeling old dwellings.

There has hardly as yet been time for the new line to demonstrate its profit possibilities. The company, however, is pushing it hard and advertising extensively. Priced to compete with old-type fixtures, it would seem that Briggs had developed into a serious threat to the activities of such a company as American Radiaor & Standard Sanitary and to a lesser extent Crane. More will be known about this as the Briggs line becomes better established and the distribution system has been perfected. But progress is being made as may be realized from the fact that Briggs is to supply all the plumbing equipment for the housing project on the James Couzens tract near Michigan's Orchard Lake district. This ultimately involves the construction of some 600 homes; bathtubs are installed already in about 25 per cent of this number. In addition to plumbing, Briggs has a line of the highly modern and popular tubular furniture and this in a sense gives the company another stake in construction.

Chronology of Briggs

1909	**Formed with assets of $50,000—all cash.**
1912	**Dividends initiated.**
1917	**Acquires Sterling Auto Top Co. and Detroit Curled Hair Works.**
1917	**Stock dividend 265 per cent.**
1922	**Stock split five-for-one.**
1923	**Acquires Michigan Stamping Co.**
1924	**Stock dividend 200 per cent.**
1925	**Buys additional plants.**
1928	**Stock establishes high of $65 a share.**
1930	**Organizes wholly-owned British subsidiary.**
1933	**Stock establishes low of $2 5/8 a share.**
1933	**Introduces plumbing ware.**
1935	**Earns $4.77 a share. Total resources $42,000,000. Plant $9,600,000. Cash and governments $8,000,000.**
1936	**Stock sells within 1/8 of its old $65 high. —Current price $51.**

Historically, Briggs Manufacturing is revealed as a company of erratic earning power. Over the past dozen years net income has varied all the way from a profit of more than $11,000,000 in 1924 to a loss of nearly $2,000,000 in 1932. The depression, however, was not the sole factor responsible for the decline in earning power, for long before its advent net income was running well below the $11,000,000-mark. For example, in 1927, the year of the Ford shut-down prior to the introduction of the Model "A," Briggs earned little more than $1,000,000.

In the years following the worst of the depression, the company's recovery in earning power has closely followed the trend of automobile production. For 1933, net income of $1,600,000 was shown, for 1934, $5,100,000, while for last year the net profit of $9,300,000 began to approach the record of the early twenties. On a per share basis the earnings of the past three years were $0.82, $2.64 and $4.77, respectively.

Ownership of the Briggs Manufacturing Co. rests solely with the common stock, of which there are 1,979,000 no-par shares outstanding. Of these, the company itself holds some 37,000 shares. There are neither bonds nor preferred stock of the parent company outstanding. The Briggs family which founded the enterprise and under whose management it continues is believed to be still heavily interested in the company. W. O. Briggs, a baseball enthusiast and owner of the American League's Detroit Tigers, is president and chairman of the board.

Financially, Briggs is in an adequate position. The balance sheet of December 31, 1935, showed total current assets of nearly $30,000,000, of which almost $8,000,000 was in the form of cash or United States Treasury bills. As of the same date, current liabilities amounted to $9,000,000.

Last year Briggs distributed $3 a share on its common stock—$2 as a "regular" dividend and $1 in extras. Assuming that at least $3 will be paid again this year, the stock affords a yield of 6 per cent at the present price of $50 a share. This is a very fair return at this time when exceedingly low yields are the rule rather than the exception.

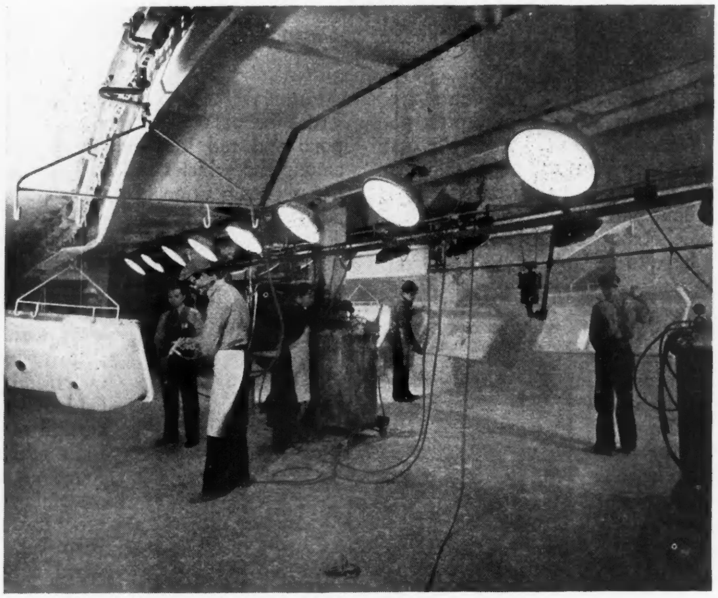
The stock, of course, is speculative in character both because of past fluctuating earnings and because of the uncertainties which naturally attach to any business dependent upon the automobile and contracts with the automobile companies. Competition to supply the motor makers is keen and the fact that a favorable contract is currently held is no assurance that it will be held forever. On the other hand, the introduction of the plumbing ware and bathroom fixtures betters the probabilities of more stable earnings and makes the company less dependent upon one industry.

Although in time it is possible that the stock of the Briggs Manufacturing Co. will attain more of an investment standing that it has currently, the action of recent days has shown conclusively that this happy state is not yet achieved. The market generally has been off, of course, but Briggs has been particularly weak, having lost fifteen points in short order.

And this, despite the fact that so far this year the automobile industry has made a remarkably good showing. At one time it was thought that the early introduction of 1936-models last fall and the resulting unseasonal stimulation to sales might rob the first quarter of its normal activity. Yet, while there undoubtedly is something to this argument, it is now evident that, had the new models not been introduced early, the spring demand would simply have swamped the factories. As it is the industry has enjoyed an excellent first quarter and a number of companies currently are experiencing record-breaking sales.

There are equally favorable fundamentals behind the outlook for the new plumbing line. Building construction which had been slipping steadily downward for ten years, turned sharply upward in 1935. Residential construction last year was 170 per cent better than 1934. The improving trend has continued into 1936. The Department of Labor reports that while building construction in February was slightly below January, the month was nevertheless 87 per cent better than February, 1935. Residential construction alone was not far from 200 per cent better than in January last year.

It must be remembered that these impressive percentage gains are from a very low level; in other words, *if* there is to be a building boom, it is hardly as yet underway. Conceding the enormous potential demand for housing which has resulted from years of under-building, and seeing with one's own eyes this potential demand gradually being translated into an actual demand under the stimulation of general improvement in business and the lending activities of the various agencies of the Federal Government, it is hard to see how Briggs could have started its plumbing line in a better setting.



Photos Courtesy, Briggs Mfg. Co.

Making enamelled sinks in Briggs' new and modernly lighted plumbing ware plant

In the face of what should be such a strong, favorable fundamental influence, diligent inquiry fails to reveal a thoroughly convincing reason for the recent market weakness of Briggs. There are rumors of this and that affecting the company temporarily and there exists, it must be admitted, some supporting evidence. Ford has evidently lost his leading position at the head of the automobile industry and it looks as if Chevrolet this year were going to be the most popular car. This, coupled with increased wages and larger charge-offs, is being translated into first quarter earnings of less than $1 a share. If there should be any truth in such a contention, it would certainly make an unfavorable comparison with the $1.67 a share shown for the first three months of 1935.

Pessimists support their viewpoint by pointing to the fact that the plumbing line is something entirely new and that it has clearly been impossible to establish a profit margin as yet. Also, that the company is undoubtedly being subject to important non-recurring expense in getting the new line started and that if such development costs are charged off as they occur, rather than pro-rated over a period, it is going to have an adverse effect upon reported earnings. Even if this should paint the picture darker than it is in actuality, it is contended that the stock market acts on reports more than on a deep study of such reports.

On the other hand, these arguments cannot be taken too seriously. Whether or not automobile production during 1936 will materially surpass the 1935 output of 4,182,000 units is something that only time can tell; certain it is that this will be a good year. Equally certain is it that Chevrolet is not going to nose Ford completely out of the picture and that Briggs can look forward to doing a very substantial business with the Ford Motor Co. for some time yet. Likewise, Briggs can look forward to Chrysler's Plymouth giving a satisfactory account of itself.

Naturally, there can be less conviction as to the outcome for Briggs' building line. It is conceivable that building activity *could* result in nothing more than a "profitless prosperity" for the company in its new venture.

This would be the case were it to permit itself to be drawn into a demoralized price situation which currently menaces some divisions of the building industry. It looks, however, as if Briggs were not going to fall into the errors of other companies. In this connection one might cite Goodyear's past practice of selling tires to the mail order houses at prices that enabled these retailers to sell cheaper than could the rubber company's own dealers. Under such conditions one can hardly wonder that the big tire companies have not done well from an earnings' standpoint. Briggs' plumbing fixtures are distributed only through established channels of wholesaler and licensed master plumber. The company does not seek sales outlets through the chain stores or the mail order houses.

Moreover, it is a favorable augury for the future position of Briggs in the plumbing ware field to find that the factory at the present time is not producing for stock but is operating at a high rate against actual consumers' orders. This may not mean immediate profits from this division but it suggests that they are not too remote.

Weighing these various favorable and unfavorable factors, it is believed that the constructive forces are more enduring and impressive than those which appear adverse. In other words, it is to be seriously doubted whether the company's current market weakness is anything more than a temporary development to be forgotten in the favorable showing which should make its appearance in the last half.

Why the Paint Industry Is Booming

Many New Developments Bring Changes in the Trade — Motor Industry and House Construction and Renovation Broaden Demand

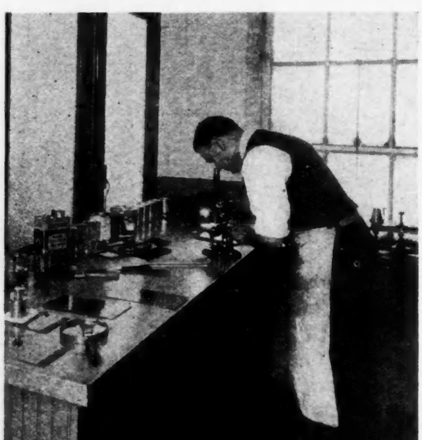
By Samuel C. Marsden

WHILE there is much to be said for the decorative qualities of paint, its true function is protective. Neither Sherwin-Williams paints nor any other paints "cover the earth," but they do cover a goodly portion of everything that man makes—and they cover it primarily to preserve it. Without paint, super-bridges, super-ships, or any other large steel structure would be virtually impossible, for they would have to be built of stainless steel or other non-corrosive material at prohibitive cost. Without paint, the average man owning a frame house would have all he could do to keep it in repair; automobiles would have to be rust-proofed throughout or made of materials other than steel; railroad freight rates would have to be at least double what they are to keep up with the increased wear and tear, or to finance the more costly materials that would have to be substituted in order to obtain any reasonable length of life at all.

This country has a normal paint bill in the neighborhood of $500,000,000 a year, but at that it's a great deal smaller than the repair bill that would be rendered if the elements were permitted to take their toll of unprotected surfaces.

In this setting it is natural that a great industry, engaged in the manufacture of paints, varnishes and finishes, has evolved. Moreover, it is a live industry which has shown a willingness to advance with scientific development. True, the old standard materials such as white lead, lithopone and red lead among the pigments, and linseed oil among the vehicles still lead the field; but not without vigorous competition from some meritorious newcomers adapted to all kinds of special purposes.

It was only 13 years ago that General Motors first came out with automobiles finished in the new Duco, thereby putting the whole varnish industry on the defensive. Today we find Henry Ford dolling up his V-8s with a new synthetic resin that rivals the nitro cellulose lacquers and opens up a brand new field of possibilities in paint and varnish manufacture.



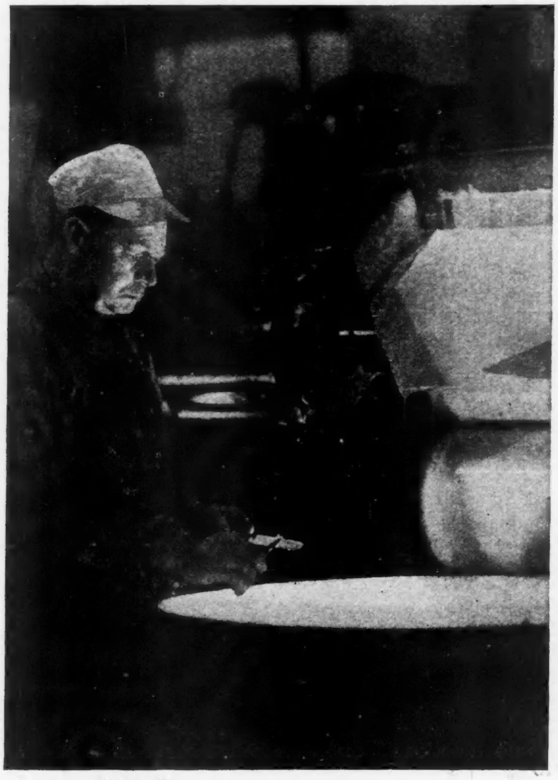
Courtesy, Devoe & Raynolds

In addition, the quick drying, four-hour enamel, has sprung into increasing popularity for home use. New uses are being found for soy bean oil, tung oil from China wood, a host of new resins of the now familiar Bakelite variety, made by the company of that name, and several others. Lead and zinc pigments are rivaled by a titanium dioxide, whose non-poisonous chemical resistance and great hiding power commend its use. Although this pigment is scarcely more than twenty years old, we find National Lead Co., of Dutch Boy fame, has just completed a new five million dollar plant for its manufacture through

its subsidiary, Titanium Pigments, while du Pont, Glidden and others climb on the titanium bandwagon.

In all of this advance and change which is in progress, the consumer is the gainer in both durability and added beauty of product as well as more time saved in application and drying; although the manufacturers are not without their advantages in broadened markets.

It was these considerations of time and appearance which led to the introduction of the highly popular lacquers of the Duco type. This was the first great departure in the fundamentals of the paint industry—the employment of cellulose lacquer for the vehicle of a pigment. By means of it one-half dozen coats can be sprayed on an automobile in relatively few hours, giving a better paint job than that which previously took something in the neighborhood of three weeks. Imagine Chevrolet or Ford, which think nothing of turning out a hundred thousand cars a month, trying to maintain any such production if dust-proof painting and drying quarters had to be provided for almost a month's output.



Courtesy, Glidden Co.

Du Pont, of course, is not the only manufacturer of pyroxylin lacquers. Sherwin-Williams, the largest manufacturer of painters' materials in the country, makes them and does a big business with the automobile industry, incidentally. However, Sherwin-Williams and other producers of these lacquers are obliged to pay a royalty tribute to du Pont.

Although it is too early as yet to give a definite answer in the affirmative, there is enough evidence to make it a valid question as to whether or not Duco and its other trade-named contemporaries have had their day and are now to give way before the onslaught of the new synthetic resins. As has been said, Ford has gone over to the latter and Ford has had a habit of blazing a path for others to follow. Old-time varnishes (the good ones) were based on the natural fossilized gums of the Far East, while the poor ones were frequently adulterated with rosin, the latter being a product of the distillation of pine stumps in the manufacture of turpentine. The new synthetic resins, however, of which there are various types distinguished by formidable chemical terms, are actually glossier and tougher than the best of the old natural resins. Varnishes made from these new synthetics and enamels made by adding pigment to them have already turned the established varnish and enamel trade inside out and they are now after the lacquers.

Although admittedly sketchy and incomplete from one standpoint, a sufficiently detailed background has now been provided for the various manufacturers of paints to be seen in correct perspective, relative to the various painting needs that exist. For example, National Lead, the most important fabricator of lead in all its forms and whose most important single division is painting materials, will obtain little, if any, benefit from the necessity of painting a larger number of automobiles this year. Larger demand for lead-bearing metals, lead battery and other parts, yes, but little help from the increased demand for auto paint. And, it should be noted, the automobile is the most important individual consumer of paint. Yet, if du Pont should be the greatest beneficiary of the expected increase in automobile paint demands this year, National Lead will be a beneficiary of the upturn in residential construction and all the repair work in the same field that is now being carried out.

Sherwin-Williams will benefit from the automobile demand, also the housing demand and, as a matter of fact, from almost any other demand for paint that may arise. The Pittsburgh Plate Glass Co. is similarly situated, for it has its pyroxylin lacquer in "Mimax," its interior wall paint in "Wallhide" and, for a purpose which has not as yet been mentioned, the painting of freight cars, "Carhide."

The subject of freight cars serves to introduce the railroads as the second largest consumers of paints; they surpass construction even in more normal times and are exceeded only by the automobile. By and large the railroads are not at all exclusive in their purchases of paint. Some use the old-fashioned white lead combination for freight cars and exterior wooden surfaces, others take "Carhide," or buy their needs from Sherwin-Williams. Duco itself and similar products under other names are popular for steel passenger cars. A dozen different varnishes find a thousand uses in cars and in stations. Red lead still holds its pre-eminent position as a protector of bridges and other steel work exposed to the weather.

In addition to the manufacturers of paint already mentioned, there are countless others engaged in the business and an even larger number dependent to some extent upon the sale of paint. Of the manufacturers of actual painting materials might be mentioned Grand Rapids Varnish and Pratt & Lambert. The latter's best known brands perhaps are "61" varnish, "Effecto," "Vitrolite," "Vitroloid" and "Vitralex." Then, there is Devoe & Raynolds, manufacturing a complete line of paints and varnishes and whose best known trade-marks are "Devoe," "Bay State" and "Pee-Gee."

The Glidden Co. which has been mentioned already in connection with titanium, is another company with a complete line of paints, varnishes and enamels. This phase of the company's business has been long established, for it springs from the Glidden Varnish Co. of Cleveland which was formed in 1870. In the past fifteen years or so the paint line has been widened considerably. In 1921 the manufacture of lithopone, a white pigment of zinc sulphide and barium sulphate, was undertaken; in 1924 a maker of white lead was acquired; in 1929 a maker of

red lead and litharge; in 1934, American Zirconium, partly owned subsidiary, was formed to handle titanium; while in the same year a modern soy bean plant was erected in Chicago. An appraisal of the company's outlook on the basis of paint, however, is complicated by the fact that it is also very much of a food company.

Among the companies largely dependent upon paint, there is Archer-Daniels-Midland. Although this company is also in the flour-milling business and has recently established a pharmaceutical division, its principal activity is the pressing of flaxseed to produce linseed oil.

Paint Manufacturers and Those to Whom Paint Is Important

Company	Earned per Share 1934	Earned per Share 1935	Recent Price
Archer-Daniels-Midland	1.98	1.27	$41
Devoe & Raynolds "A"	2.36a	2.88a	55
Du Pont	3.63	5.02	142
Glidden	1.68b	2.91b	50
Grand Rapids Varnish	0.71	0.96	15
Kellogg (Spencer)	3.01c	2.22c	31
National Lead	8.37	10.77	300
New Jersey Zinc	1.93	2.38	82
Pratt & Lambert	1.09	1.73	35
Pittsburgh Plate Glass	2.69	5.32	125
Sherwin-Williams	5.30	6.18	137

a On combined "A" and "B" stock for year ended Nov. 30. b Year ended Oct. 31. c Year ended Aug. 31.

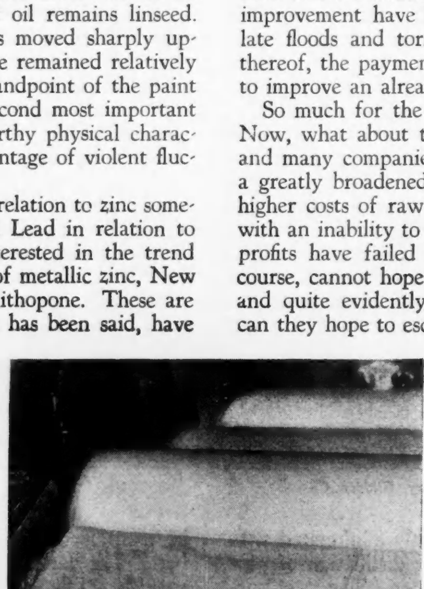
Another prominent company, importantly dependent upon paint, is Spencer Kellogg. This company is believed to manufacture as much as 30 per cent of the entire United States production of linseed oil. It also manufactures soy bean oil and imports china wood oil, owning its own china wood plant in Hankow. Although this company is not as far into an unrelated food business as Glidden, nevertheless, the food, soap, medicinal and chemical demand are factors of considerable moment to it.

Soy bean, perilla, fish, china wood and other oils are all used in paints, but the greatest paint oil remains linseed. Despite the fact that consumption has moved sharply upward in the past few years, prices have remained relatively stable—a desirable feature from the standpoint of the paint manufacturer. China wood oil, the second most important of the paint oils, with all its praiseworthy physical characteristics, suffers from the grave disadvantage of violent fluctuations in price.

New Jersey Zinc holds a position in relation to zinc somewhat similar to that held by National Lead in relation to lead and is, therefore, importantly interested in the trend of paint sales. In addition to all kinds of metallic zinc, New Jersey Zinc turns out zinc oxide and lithopone. These are both important paint pigments and, as has been said, have the great advantage of being non-poisonous. Undoubtedly it would be possible to connect another dozen important companies with paint—Aluminum Co. of America, for example, through its production of aluminum powders which, when a suitable vehicle is added, make a paint most valuable in priming wooden surfaces and for reflecting heat from water towers, etc.—but it is believed that the largest of the organizations directly connected with, and vitally interested in, paint have been covered.

Today, everything points to an increased demand for paint of almost every kind. Manufacturing, of which automobiles and furniture are the two divisions requiring most paint, normally take between thirty and forty per cent of all the finishes sold. At the present time, manufacturing activity in general, and automobile and furniture manufacturing in particular, is definitely on the upward trend. Residential construction also is forging ahead and this, too, will require paint, although not, even in normal times, as much as is required for re-painting. It is the prospective re-painting demand that makes the outlook so bright. Throughout the depression, maintenance everywhere was skimped; not only did the home owner fail to paint his house, but railroads, public utilities, the farmers and about everyone else likewise failed to do as much painting as they should have done to keep their property in even fairly good condition. Business improvement, larger corporate profits, record electric power consumption, better railroad freight traffic are all combining now to generate the purchasing power that is necessary to turn a potential demand into an actual demand. And, if one hasn't one's own money with which to buy paint, the chances are that it can be borrowed in some way from the government, whether the would-be painter be individual or corporation. Recent questionnaires show that as high a proportion as thirty per cent of the F H A guaranteed loans for modernization and improvement have been spent on painting contracts. The late floods and tornados, government aid to the sufferers thereof, the payment of the soldiers' bonus, are all thought to improve an already bright outlook.

So much for the demand side of the industry's outlook. Now, what about the question of price? Many industries and many companies over the past few years have enjoyed a greatly broadened demand for their output but, through higher costs of raw materials and mounting taxes, together with an inability to raise selling prices proportionately, their profits have failed to respond. The paint companies, of course, cannot hope to escape taxation and this is mounting and quite evidently is going to mount further. Neither can they hope to escape the effects of generally higher commodity prices; costs of paint materials are up substantially. The maintenance of profit margins therefore becomes a matter of price. So far, the paint companies have accepted narrower margins of profit and the increased earnings that the majority of them have reported is solely the result of larger volume. However, the point has now been about reached where they can no longer look with equanimity upon narrowing margins and the trade is rife with rumors of higher selling prices as we more nearly enter the heart of the painting season. While the industry has always been restrained by plenty of healthy competition, it has never been an advocate of cut-throat tactics and the probabilities are that we shall see higher selling prices shortly. Thus, the prospective increase in demand should never mean a "profitless prosperity" for the holders of paint stocks.



Courtesy, Sherwin-Williams

Profits in Copper Trend Upward

Improved Statistical Position and Price Outlook Brightens Prospect—Companies in Best Position

By George L. Merton

FOR some time now the copper industry has shown unmistakable evidence of improvement, in fact so notable has been the progress in this direction that the statistical position of copper is as strong as it has been at any time since the war. Both production and consumption have gained; a substantial reduction has been made in stocks on hand; prices have risen and prospects are favorable for at least a further moderate advance in the months ahead. From this background emerged some surprisingly good earnings reports for the leading producers of non-ferrous metals last year, and it has supplied the incentive for the bullish enthusiasm reflected in the recent market action of representative copper issues.


Courtesy, Copper & Brass Research Assn.

The present position of the copper industry is by no means the result of overnight developments, and while world-wide business recovery has played an important role, the contributions of this factor would have been much less apparent had there not been an appreciable reduction in the heavy surplus stocks of copper above ground. This has been a long and arduous digestive process accomplished mainly through the medium of sharply curtailed production, until recently when rising consumption has become increasingly effective.

Statistical Position Stronger

World stocks of copper, according to late figures released by the Commodity Exchange, Inc., rose from a low of 331,774 short tons at the end of 1928 to a high of 798,587 by the end of 1932—an increase of more than 100 per cent. World production and consumption of copper declined precipitately from 1929 and reached a low in 1932. Since that year both consumption and production have increased almost as sharply as they had previously declined. But in 1932, production of copper was less than demand and has since lingered behind, permitting a steady reduction in surplus stocks. At the beginning of this year, world stocks of copper totalled 485,300 short tons, and by the end of March, last, were down to 483,300 tons.

As might be expected, this combination of favorable events has had a salutary effect upon copper prices. In 1932, the average price of copper in New York was about 5½ cents a pound, having declined from above 18 cents in 1929. Currently copper is selling at 9.50 cents and the feeling is strong that the price may rise above 10 cents this year. Recently the price situation has been featured by pronounced strength in foreign copper prices and the gap which previously existed between foreign and domestic prices has narrowed steadily.

With domestic copper production protected by a 4-cent tariff, fluctuations in the price of copper abroad are significant chiefly for their psychological effect upon domestic prices. The importance of the rise in foreign prices from the standpoint of several of the leading copper producers, however, cannot be gainsaid. Moreover there exists a logical basis for the contention that not only is the rise in world prices economically justified but that it is quite likely to be sustained. Two factors have been primarily responsible—production control and substantially enlarged demand.

Restrictions on World Output

Since June 1, 1935, foreign producers have been operating under an agreement which restricted output to an average of about 80,000 tons monthly in the last half of 1935. Previously production had been about 20,000 tons higher. This agreement has been in effect for a sufficient time now to warrant the assumption that foreign producers are satisfied with the results and, therefore, likely to continue the arrangement indefinitely.

Consumption of copper abroad last year was the largest ever attained. Shipments of refineries to industries averaged about 90,000 tons monthly as against the average of 80,000 tons for 1934, or about one-third higher than in 1929. A higher rate of consumption was registered by practically every European country and it would not be surprising if this strong upward trend produces further record-breaking results this year. Regrettable though it

may seem, the probabilities are that rearmament activities in Europe will be on an even larger scale this year, while such peace-time activities as the active expansion of the electrical equipment and utility industries and the sustained pace of housing construction promise important contributions to consumption.

In the United States, producers are not bound by agreement to restrict production and the progress which has been made in working off surplus stocks has been due entirely to voluntary action and increased consumption. Present prices are high enough to permit the large low-cost producers to show a satisfactory profit, but any material rise from current levels would undoubtedly stimulate production activities on the part of the higher cost mines. By the same token, a considerable amount of scrap, or "secondary," copper would be offered, a conclusion suggested by indications that dealers in scrap copper are accumulating stocks in anticipation of higher prices. Thus, it is fairly obvious that any further increase in the price of copper, say above 10 cents, in the near future would have to have the strong support of demand emanating from important consuming quarters.

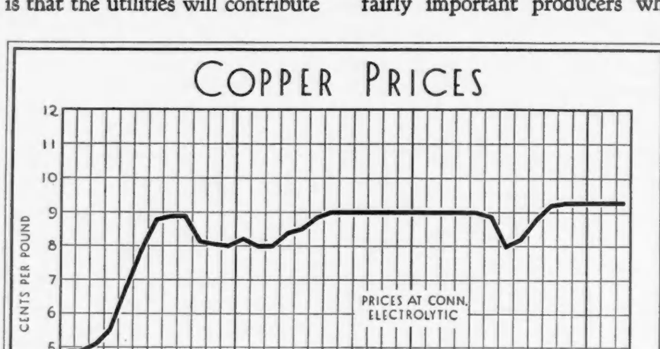
Earnings of Leading Copper Companies

	1935	1934	Recent Price	Div.	Yield
Anaconda	1.29	0.22	37	0.25(a)	...
Kennecott	1.22	0.53	39	1.00	2.5
Cerro de Pasco	3.85(e)	1.58	54	4.00	7.2
Phelps Dodge	1.21	0.60	35	1.00	2.9
Magma	1.63	1.58	40	2.00	5.0
Calumet & Hecla	0.33	Nil	11	0.25(a)	...
Hudson Bay Mining	1.16	0.58	27	1.00	3.7

(a) Last payment. No regular rate. (e) Estimated.

Consumption Demand Rises

A substantial increase in housing and plant construction this year looms importantly in the current prospective demand for copper. Larger purchases of railway equipment promise to swell the demand and this is also true of such miscellaneous outlets as electric refrigerators, radios and industrial machinery. But, as was true last year, the mainstays of demand will be afforded by the automobile and electrical equipment industries, both of which continue to forge steadily ahead. Public utilities, normally the largest users of copper and copper products, are still proceeding cautiously in planning capital expenditures and additions, pending clarification of the political atmosphere, and as a factor in the outlook for copper demand the best that can be anticipated at this time is that the utilities will contribute a moderately larger proportion than last year. The copper industry has not neglected the field of industrial research and new uses for the metal have been developed but these for the most part are of potential rather than immediate significance. Thus far, however, research has not restored to copper the competitive advantages gained by other metals such as aluminum, nickel and steel alloys. This loss of former markets has been particularly noticeable in the United States. Although world consumption during the past eight years has increased over 16 per cent, consumption in the United States has declined nearly 7 per cent, while outside of this country consumption has gained about 40 per cent. This trend implies that any considerable rise in the price of copper might well place it at a serious disadvantage in relation to competing metals, both in this country and abroad.



In summary, the outlook for the copper industry is distinctly more hopeful than otherwise. There is little reason to question the continuance of the upward trend of consumption, and in the final analysis this is the most important element, restricted production and other efforts seeking to control prices being supplementary and without significant effect otherwise. Current prices are high enough to enable the majority of leading copper producers to show good earnings, while higher prices can be counted on to produce a corresponding increase in profits only if they are predicated upon further improvement in the statistical position of the industry and a rise in the general commodity price level.

Three Leading Contenders

The next step is to examine this prospect as it appears likely to be reflected in the operations and earnings of some of the representative copper companies.

The three largest companies engaging primarily in the production of copper are Anaconda, Kennecott and Phelps Dodge, in the order named. Of these Phelps Dodge is a domestic enterprise exclusively, while both Kennecott and Anaconda have important foreign properties. American Smelting and American Metal also are important factors but copper production is secondary to the custom treatment of ores. Both of the latter companies, however, in the natural course of events, will benefit from any favorable developments affecting the copper industry. Among the comparatively smaller copper companies there are several fairly important producers which promise to participate generously in the improved outlook for the industry.

Of the three leading producers, Anaconda distinguished itself last year by reporting the largest increase in profits. Net income increased 400 per cent and was the largest since 1930. Profits last year of $11,180,087 compared with $1,926,706 in 1934. This showing becomes even more notable when it is contrasted with the aggregate losses of about $27,000,000

suffered in the years 1931-'33 inclusive. During these lean years, the company was compelled to borrow over $70,000,000 from banks. By the end of 1934, notes payable had been reduced to $59,549,000 and last year they were eliminated entirely by a refunding operation involving the sale of $55,000,000 4½ per cent debentures due 1950.

Marked Gains by Anaconda

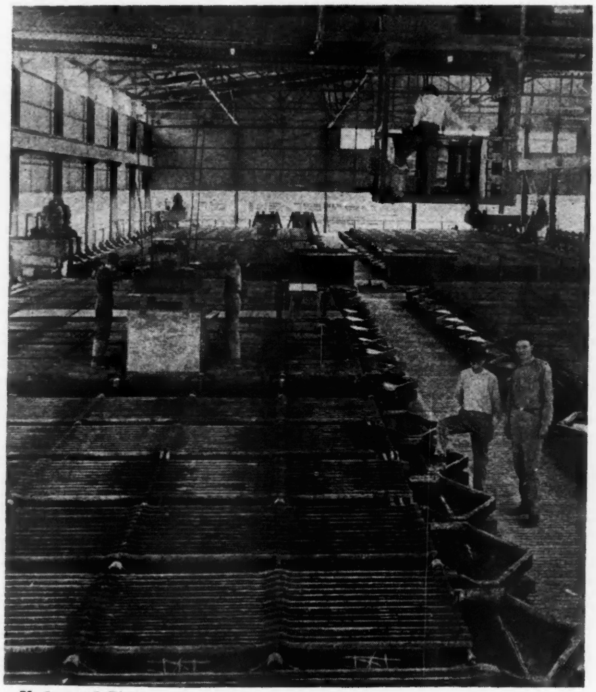
In addition to being the world's largest producer of copper, Anaconda produces other non-ferrous metals in substantial quantities and is one of the foremost fabricators of copper. Principal producing properties are located in the United States, South America and Mexico. The unusually high grade ore mined in the company's foreign properties enables Anaconda to produce copper at an average of about 6 cents a pound, including all cost items and depreciation, for all of its properties. Although output of foreign mines was restricted last year through adherence to production agreements, earnings, nevertheless, were appreciably higher as a result of increased demand and higher prices.

Current finances are in excellent condition, having been materially strengthened by the refunding operation last year. Funded debt now totals about $83,000,000 and capital stock is outstanding in the amount of 8,674,338 shares. Net income last year was equal to $1.29 a share, as compared with 22 cents in 1934 and earlier this year, the declaration of a 25-cent dividend marked the first payment to stockholders since 1931.

At 39, the shares are up some ten points from their low earlier this year, and thirty points higher than their 1935 low. These levels suggest that immediate prospects are generously discounted but there is slight doubt that additional evidence of improvement in the copper industry will fail to further enhance the value of the leading copper company stock.

Like Anaconda, earnings of Kennecott Copper last year were the best since 1930. Net income of $13,164,571, equal to $1.22 a share on the company's stock, was more than double 1934 net of $5,719,854, or 53 cents a share. Last year, the company produced 418,269,528 pounds of copper as compared with 393,222,649 pounds in the previous year. Deliveries against sales were in excess of 487,000,000 pounds, enabling the company to effect a sizable reduction in stocks. Already importantly represented in the field of copper fabricating through the Chase Companies, Inc., Kennecott last year acquired the American Electrical Works, capable of turning out 50,000,000 pounds of copper wire and cable yearly. This company is now known as the Kennecott Wire & Cable Co.

Kennecott also owns both foreign and domestic properties, having vast production facilities at the Braden Mine in Chile, which supplies the overseas market at a cost of about 6¼ cents, while its domestic properties in Utah and Nevada produce copper at from 6¼ to 7½ cents a pound from low-grade ores. On 10-cent copper, Kennecott would earn between $1.40 and $1.50 on the basis of last year's production; on 12-cent copper earnings would be about $2.25 a share; and on 15-cent copper earnings of about $3.50 a share might be shown. These figures, of course, would be moderately increased by a rise in production.



Underwood Photo

Electrolytic refining of copper

Higher Dividends for Kennecott

Recently the company increased quarterly dividends from 20 cents to 25 cents. Further increases in the dividend to conform with the pace of earnings are a logical expectation, supported by the company's excellent financial position. At the end of last year, working capital stood at more than $60,000,000 and cash of over $25,000,000 was larger than at any time in the past six years. The company has no funded debt, the 10,773,485 shares of stock representing the entire equity.

On the basis of last year's earnings, the company's shares are not cheap at recent levels around 41. Nevertheless, it may be conceded that they are one of the more conservative vehicles for participation in the further recovery of the copper industry.

Cerro de Pasco Copper has been a leading beneficiary of rising prices for silver and more recently it is probable that the company has been able to offset the sharp break in silver prices late last year by increased production of copper, lead and zinc and the higher prices of these metals. Exclusively a foreign producer, however, the company is not in a position to market copper in the United States nor is it able to take advantage of the Government's price of 77 cents for newly mined silver.

The 1935 report has not been issued and no interim figures are available. The company, however, is understood to have sold more than 13,000,000 ounces of silver last year which, on the basis of the average price, yielded more than $8,500,000 gross or only slightly less than total sales of all metals in 1934. Moreover, the company has paid four quarterly dividends of $1 on its 1,122,842 shares of capital stock. It is probable, therefore, that earnings last year were between $3.75 and $4 a share and while more recent earnings may be at a somewhat lower rate, the company's strong finances lend support to a liberal dividend policy. The generous yield of about 7 per cent afforded by the shares at 55, in all probability reflects some uncertainty over the more immediate trend of earnings, but considering the company in the light of the copper prospect,

(Please turn to page 57)

Signs of Business

Earnings Gain

Westinghouse Electric earned the equivalent of $1.40 a share on its common stock in the first quarter of this year, compared with only 87 cents in the first quarter of 1935. The showing actually is more impressive than it appears, for the first quarter of last year included some $900,000 in non-recurring profits, while this year the company was hampered to some extent by flood damage. The main cause of the sharp gain in the latest report was a 100% increase in central station business—a division which has long lagged badly.

Chairman of ***General Foods*** states that sales during the first quarter of this year were substantially ahead of last and that preliminary figures show that earnings will be equivalent to more than 70 cents a share on the common. For the first quarter of last year the company's earnings were equivalent to 64 cents a share.

Remarkable was the improvement registered by ***Youngstown Sheet & Tube*** for the first three months of 1936. Earnings, after allowing for regular dividend requirements on the preferred on which there are accumulations, were equal to $1.40 on the common. Last year for the same period the company lost nearly $600,000. The stock moved to a new high on the news in a dull market.

Collins & Aikman, profiting from the increased demand for automobile fabrics, earned the equivalent of $6.28 a share on its common stock for the year ended February 29, last. This compares most favorably with an unearned preferred dividend in the previous twelve months.

American Smelting & Refining's chairman says that his company earned at the annual rate of $4.96 in February and at the rate of $4.98 in January; last year February earnings were at the rate of $1.06 and January at the rate of $2.90.

Indicated earnings of the Bell System for the first two months of 1936 were equivalent to $1.31 a share on the stock of the ***American Telephone & Telegraph Co.;*** this compares with $1 a share for the corresponding previous period. For the first quarter of this year the American Telephone & Telegraph Co. (parent company only) had earnings equivalent to $1.84 a share against $1.61 last year.

Sales Volume Increasing

Crucible Steel's chairman says that the business of his company for the first three months of the year was sufficient to indicate earnings at more than double the 1935 rate and that there had been a further increase during the first half of April which had carried volume to a point better than at any time since 1930.

Arnold Constable's business improved 20% in February and March and if such a gain is maintained the company will show a profit for the first half of the fiscal year against a loss in the corresponding previous period, according to the company's president.

Montgomery Ward's sales in March totalled nearly $25,000,000, the largest in the company's history for that particular month.

J. C. Penney's March sales were 4.9% ahead of the previous March; however, the gain reported for February was 13.7%.

Many sales records being broken in the automobile industry. ***General Motors'*** Chevrolet and Oldsmobile make all-time monthly records in March. Buick's domestic retail sales during the first ten days of April were the best for the period since 1928 and were more than three times the sales during the corresponding period of 1935. ***Studebaker's*** retail deliveries in March were 77% over March, 1935, while the first quarter was 56% ahead of a year ago.

Expanding operations

Burroughs Adding Machine is reported to have started a more than ordinarily thorough-going plan of modernization and renovation.

The National Retail Dry Goods Association estimates that the volume of ***instalment sales*** during 1936 will reach the five billion dollar mark. This would compare with the 1929 high record of $6,370,000,000 and $3,840,000,000 last year.

The Brackenridge plant of the ***Allegheny Steel Co.*** is reported to be operating at capacity.

Kelvinator's orders for shipment to its dealers in the first quarter of 1936 were more than 100% greater than those received in the first quarter of 1935—58,080 units in the first three months of this year, having a retail value of more than $12,500,000.

Pacific Fruit Express has ordered 2,000 refrigerator cars, ***General American Transportation, Pullman, American Car & Foundry,*** and ***Pacific Car & Foundry*** each to build 500. Pacific Fruit will build also 700 in its own shops.

The *Engineering News-Record* states that the ***Jones & Laughlin*** award for equipment for its new steel sheet and strip mill caused engineering construction awards to jump to $54,756,000 for the week ended April 14.

Owens-Illinois Glass is proposing

Progress

an issue of stock to finance a $9,000,000 expansion and renovation program.

Bridgeport Brass is another company planning a stock issues, part of the money from which will be used for plant improvement.

Eastman Kodak is to make two additions to the Kodak Park plant and one to the Hawkeye camera works. The expansion has an estimated cost of more than $1,000,000.

As an indication of the increased buying of steel on the part of the railroads it might be noted that the ***Erie*** proposes to lay 18,000 tons of rail this year against 16,000 last.

The recently completed LaGrange plant of Electro-Motive Corp., ***General Motors*** subsidiary, has between three and four million dollars of work on hand, mostly electric-diesel switching locomotives. As the roads achieve greater prosperity presumably they will come into the market for much more of this sort of money-saving equipment.

Exploiting New Products

Figures compiled by Automatic Heat and Air Conditioning show that 73 utilities in cities with a population of nearly 40,000,000 have now in service 7,587 installations with total horse power of 334,467. They conclude that (1) Sales of air conditioning are continuing upward at a rapid pace; (2) most progress is being made in personal and small commercial installations, and (3) that the second point is substantiated further by the marked increase in the percentage of installations that are 7½-horsepower or less.

The building industry now has a new type of cement coated asphalt shingle with which to exploit what may be a boom in building. The cement, which can be colored almost anything, protects the asphalt underneath. The manufacturing process is a development of the ***Bakelite Building Products Co.*** of New York.

A number of automobile manufacturers are not neglecting the possibility that the airplane might open up a major new field for their wares. Successful tests have been made already with the ***Ford*** V-8.

New Products

The Mellon Institute of Industrial Research, reviewing the past year, lists among eighty or so developments, a new safety glass, progress in anti-pneumonia compounds and a new razor blade involving a special steel developed for shaving.

The du Pont Cellophane Co. (***E. I. du Pont de Nemour's*** subsidiary) announces a new man-made sponge which is said to be superior in many respects to the natural product. It is made of highly purified wood and cotton pulps, its sponge-like construction being obtained through chemical reactions.

M. Henry Chesny of Marine Chemicals, reporting to the American Chemical Society, says that unlimited supplies of magnesium recovered from the ocean will develop many industrial fields. He goes on to say: "The metal (magnesium) one-third lighter than aluminum, has found an ever-increasing consumption in recent years. Its future among structural materials, particularly for airplanes, automobiles, railroad cars, electrical appliances, etc., is obvious."

Du Pont announces the production of a new synthetic fiber that is a third thinner than silk, so fine that a pound ball of it unrolled would stretch from the Atlantic to the Pacific. A pound of the old type rayon will stretch a mere 100 miles.

The American Chemical Society heard the other day of a new process for making an explosive from the water in which corn is soaked before processing. The explosive which is said to be "potentially superior" to nitroglycerine had been known before, but its cost was prohibitive. Now, the way has been opened for commercial production at a reasonable cost. It seems that this development is behind the recent rise and activity in the stock of the ***Corn Products Refining Co.***

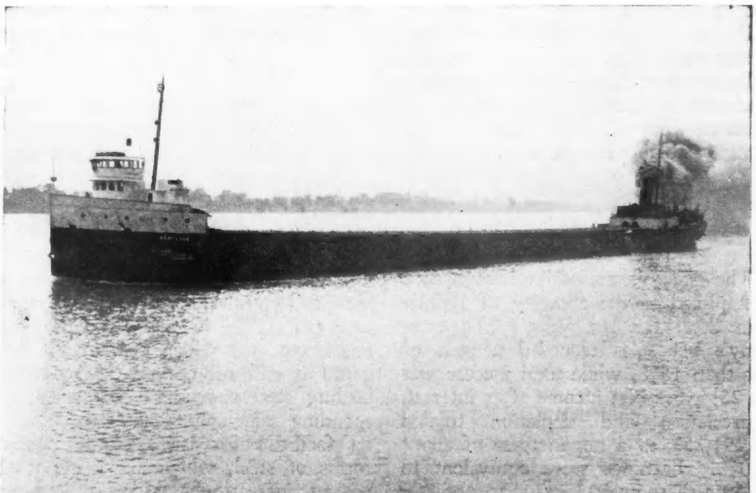


Photo from Nesmith

Carrying iron ore on the Great Lakes—Increased demand for steel foreshadows heaviest traffic in years.

Where Leverage and Trade Prospects Indicate Broad Earnings Gains

From Selected Issues

By C. L. McCord

CAPITAL leverage, as it affects common stock earning power, depends upon the makeup of a company's corporate structure. Where there is only a single class of stock outstanding the factor of capital leverage is not present. When bonds or preferred shares, or both, are outstanding, however, leverage may exert a very potent influence upon the earning power of the junior equity.

Interest charges on funded debt and the payment of preferred stock dividends, of course, have a prior claim on earnings ahead of the common stock and it is the leverage of these charges and dividends which is responsible for a much greater degree of fluctuation in common stock earning power than might otherwise be witnessed. For example, in the case of a company having only capital stock outstanding a ten per cent decline in gross might result in no more than a corresponding drop in earnings applicable to the stock. The presence of leverage, on the other hand, might easily under the same circumstances produce a substantially larger decline in common stock earnings.

Fortunately at this time we need only be concerned with the action of leverage under favorable conditions. When times are good the leverage factor strongly favors common stockholders. As earnings recover beyond the point sufficient to meet all fixed charges and preferred dividends, income available for the common stock rises very rapidly in terms of per-share results. In these circumstances, a 10 per cent gain in gross might result, say, in increasing per-share earnings 50 or 100 per cent.

Last year a sizable group of companies reported a marked improvement in business without, however, showing any significant upturn in the earnings available for their common. Some still showed nothing earned for the common, while others showed only comparatively modest earnings. In the majority of these companies, the presence of leverage prevented the full effects of better businss from being reflected in per-share results. With the benefit of continuing business recovery this year, a number of companies in this group appear likely to show a striking improvement in equity profits, for it would require no greater than what might reasonably be considered a normal gain in volume for these companies to produce an appreciable increase in common stock earnings.

It should be emphasized that any selection of common stocks based upon the potential value of a leverage factor is a speculative venture. The risks, however, may be tempered and the chances of profitable results increased when the choice is limited to those companies strongly situated in a field favored by the probability of good business gains in the months ahead. Such would appear to be the status of the four companies herein discussed.

Bethlehem Steel Corp.

The effectiveness of leverage is well exemplified in the showing of Bethlehem Steel for last year. The company's net sales recorded a gain of less than 15%, while total income was up 23½%. Net income after interest, depreciation and depletion totaled $4,291,253, or a net increase of about 700%. Earnings were equivalent to $4.59 a share on 933,887 shares of 7% preferred stock as compared with 59 cents a share for the preferred stock in 1934.

Bethlehem Steel, the second largest unit in the industry, has long been identified with the heavier types of steel used principally in public works, railroads, etc., for which the current demand is still sub-normal. Like other leading steel companies, Bethlehem is spending some $30,000,000 to enlarge its facilities for turning out lighter forms of steel, which are being used on an increasingly wider and more stable scale. It has been the company's dependence upon the demand for new capital goods that has prevented it from showing the same degree of recovery to date as experienced by companies which have made a specialty of light steel products and Bethlehem Steel's more complete recovery in the months ahead will be largely determined by the extent to which general business is willing and able to make capital outlays. It is almost certain that earnings in the first quarter were considerably better than a year ago and with the steel industry starting the second quarter with operations at the highest level in six years an excellent showing by the company for the first six months is forecast.

Last year, Bethlehem anticipated current maturities of about \$51,000,000 by the sale of \$55,000,000 4¼% bonds due 1960, and earlier this year all of the accumulated dividends of \$21 a share on the preferred stock were eliminated. Preferred shareholders were given 1 share of new 5% preferred stock, \$20 par, and \$1 in cash. Giving effect to these developments, capitalization now consists of \$99,661,362 funded debt, 933,887 shares \$7 preferred stock and a like amount of new 5% preferred stock. Common stock is outstanding in the amount of 3,194,858 shares. Recently selling around 58, the shares are generously discounting the anticipation of a material improvement in earnings but from the standpoint of the common stock, the rapidity of earnings improvement on a per-share basis could be appreciably accelerated by the operation of the leverage factor.

Worthington Pump & Machinery Corp.

Although Worthington Pump & Machinery Corp. has no funded debt, considerable leverage is imparted to the company's common stock by the two classes of preferred stock — 53,728 shares of 7% class A and 91,333 shares of 6% class B. No dividends have been paid on either class of preferred since 1932 and total accumulations amount to \$29.75 and \$25.50 a share respectively.

Relying upon the demand for heavy-duty industrial machinery, recent years have been especially lean for Worthington Pump and manufacturing losses have been shown in every year since 1930. The company's products are numerous and include pumping equipment, compressors, condensors, pneumatic tools, turbines and Diesel and gas engines. In its field the company is firmly established but competition is keen and while certain of its products are more or less standard, most of them are made to specifications against contract.

With the recovery base broadening last year, the volume of orders booked by the company registered an encouraging gain, particularly in the closing months. Operations in the last three months showed a profit and the current year began with a substantially enlarged volume of unfilled orders on hand. For the 1935 year as a whole, however, the company showed a net loss of \$95,387, as compared with a loss of more than \$1,000,000 in 1934. Applied to the combined classes of preferred stock the loss last year was equal to 65 cents a share as compared with the loss of \$7.47 a share in the previous twelve months.

Financial position of the company is comfortable, but hardly such as to permit the full liquidation of preferred arrears in cash. This would require nearly \$4,000,000. The probabilities are that accumulated dividends will be discharged through some method of recapitalization. Such a plan would be more assured of favorable reception on the part of shareholders if accompanied by evidence of improved earnings and favorable prospects. That these may materialize this year is suggested by the broader scope of industrial plant construction and rehabilitation which is under way or being planned.

The company's common stock, of which there are slightly less than 127,000 shares outstanding, is in the nature of a radical speculation, but the small number of shares coupled with their leverage position is indicative of rather unusual possibilities in a period of rising earnings. Recent quotation, 29.

Shell Union Oil Corp.

Shell Union Oil Corp. is the third largest oil unit in the United States and is one of two companies able to boast nation-wide distribution for its products. That distinction, however, was acquired only after a tremendously expensive program of expansion carried out at the height of the boom period and involving principally the acquisition of refining and marketing facilities. Some \$200,000,000 was spent in achieving this objective. The company is credited with having one of the largest reserves of crude oil in the world and potential crude oil output would be adequate to fill all refinery needs. Adherence to pro-ration schedules at the present time, however, is restricting output to somewhat more than 50% of the company's requirements.

Whatever may be said of the company's untimely decision to undertake the extensive enlargement of its properties and facilities, the fact remains that it weathered the depression in a commendable fashion. At the end of 1930, funded debt amounted to more than \$125,000,000. By the end of last year, however, outstanding bonds had been reduced to \$47,116,500, accomplished largely by their purchase in the open market at a substantial discount. This made possible the savings of some \$1,200,000 annually in interest charges. Throughout this period finances remained entirely adequate.

Last month Shell Union marketed a \$60,000,000 issue of 3½% debentures, the proceeds of which enabled the retirement of the remaining funded debt and provided additional funds for working capital. This new issue and a \$3,000,000 serial note due next year now comprises the entire funded debt of the company.

Last year operations produced a profit for the first time since 1929. Net

(*Continued on page* 56)

Bethlehem Steel Corp.

	1935	1934
Bonds Outstanding		
\$99,661,362	1.6(a)	1.08(a)
7% Pfd. Stock		
933,887 shares	4.60(b)	0.59(b)
\$1 Pfd. Stock		
933,887 shares	Issued this year	
Common Stock		
3,194,858	d0.70(b)	d1.87(b)

Worthington Pump & Machinery Corp.

	1935	1934
7% Class A Pfd.		
53,728 shares	d0.65(b)	d7.47(b)
6% Class B Pfd.		
91,333 shares	d0.65(b)	d7.47(b)
Common Stock		
126,921 shares	d8.15(b)	d15.82(b)

Shell Union Oil Corp.

	1935	1934
Bonds Outstanding		
\$47,116,500	3.7(a)	0.76(a)
5½% Pfd. Stock		
400,000 shares	18.37(b)	d2.38(b)
Common Stock		
13,070,625 shares	0.37(b)	d0.24(b)

National Supply Co.

	1935	1934
Bonds Outstanding		
\$6,294,000	3.9(a)	3.3(a)
7% Pfd. Stock		
166,221 shares	4.03(b)	d0.73(b)
Common Stock		
382,656 shares	d1.29(b)	d3.36(b)

(a) Interest times earned. (b) Earned per Share.

Security Suggestions for Income and Price Appreciation

A Balanced Selection of Bonds and Stocks

By Edwin A. Barnes

LOW investment yields are the rule rather than the exception at the present time, a truth which doubtless has been forcibly brought to the attention of every investor, regardless of whether investment income is a prime or secondary consideration. Among those securities which offer better than an average yield there are many which do so for a very definite reason and are not necessarily undervalued. In the case of bonds and preferred stocks, a generous yield may mean the acceptance of a high investment risk, while in the case of common stocks, dividend uncertainty or the presence of a static earnings position may be indicated. A possible solution to this problem suggests itself, however, through the medium of a "combination" investment involving the considered selection of high-yield issues in conjunction with commitments in the class of securities which stress the element of security or potential profit rather than current yield. Carried out within conservative limitations, such a program would not appear to present any serious threat either to the factor of safety or that of price appreciation. Several issues of the type which would fit logically into a plan of this nature are discussed in the following pages.

Certain-teed Products Corp.

Deb. 5½'s 1948

The Certain-teed Products Corp. manufactures an extensive line of building materials including roofing, gypsum plaster, wallboard, floor coverings and builders' supplies. This heavy dependence upon the building industry may be held accountable for rather unimpressive earnings record since 1927, or shortly after the last building boom attained its peak. Prior to that time the company had enjoyed nearly a quarter of a century of profitable operations. Now, however, if present indications prove reliable Certain-teed has a good opportunity to recover a considerable portion of lost ground.

Bonds

Certain-teed Products Corp. Deb 5½'s 1948		International Tel. & Tel. Deb. 5's 1955	
Outstanding	$9,543,500	Outstanding	$50,000,000
1934 Int. times Earned	Nil	1934 Int. Times Earned	1.16
1935 Int. times Earned	1.6	1935 Int. Times Earned	1.60
Recent Price	97	Recent Price	84
Current Yield	5.7%	Current Yield	6.0%

The company's debenture 5½'s 1948 were issued originally in 1928 in the amount of $13,500,000. In subsequent years, however, the operation of a sinking fund has reduced the outstanding bonds to $9,543,500. The balance of the capitalization consists of 63,004 shares of 7% preferred stock and 382,300 shares of common stock. The prevailing quotations for these two classes of stock indicate an aggregate equity for the debentures of nearly $13,000,000.

Last year marked the end of the extended period of unprofitable operations. Gross operating profit increased nearly $1,000,000 to about $4,300,000 and an operating profit of $751,182 contrasted with a loss of $347,089 in 1934. Last year, however, profits were enhanced by a reduction of about 50% in the depreciation charges. This policy was felt to have been justified by the condition of the company's properties. Since 1928, when net fixed assets were carried at $26,556,604, property values have been steadily reduced through depreciation and other adjustments with the result that they were carried on the company's books at the end of last year at only slightly more than $12,000,000. In the meantime, more than $2,000,000 had been spent for additions, etc.

The company in 1935 was particularly benefited by the extensive gains in home modernization and repairs, stimulated by the activities of the FHA. Normally, Certain-teed obtains about 60% of its business from replacement sources, and the balance from new building. Total tonnage and dollar volume last year was up about 30% from the previous year, but was still only about 40% of previous peak years. These gains, however, have extended into the current year and, with the more hopeful building outlook, promise to be sustained through ensuing months.

Fixed charges on the debentures were covered 1.6 times last year, while in 1934 there was a loss of $310,390 before interest requirements. The company has absorbed the long succession

of losses without impairment to its financial position and at the close of last year current assets of $5,620,633, including cash of $1,174,595, compared with current liabilities of $827,401. All in all the situation invites confidence and while the bonds are admittedly second grade, the yield of better than 5½% plus moderate possibilities for price enhancement lend definite attraction.

International Tel. & Tel. Corp.

Deb. 5's 1955

In the period covered by the past six years, the Deb. 5's 1955 of the International Tel. & Tel. sold as high as 99¼ and as low as 16. Considering the company's importance and the magnitude of its scope, to say nothing of the fact that over a period of ten years the company has earned its fixed charges on the average of better than two and a half times, such a wide range of fluctuation seems almost incredible. Even in 1932, the company was able to earn nearly two-thirds of its fixed charges and the showing would have been much better had it not been necessary to absorb the losses of Postal Telegraph. The company's extensive foreign interests plus the existence of large bank loans doubtless had something to do with the liquidation of the company's securities during the worst of the depression but as often happens any fears on these grounds have thus far proved to be more apparent than real.

The affairs of I. T. & T. have been improving steadily during the past two years and the prospects are that the company will shortly conclude a successful refunding operation. Reports are to the effect that the company plans to issue $35,000,000 3½% debentures, utilizing the proceeds to retire $23,360,000 bank loans and a portion of the debenture 4½'s 1939. Should such prove to be the case, an important savings in interest charges will result and the company's ability to market a 3½% issue is a significant reflection upon its improved credit standing. The success of the offering will in all probability be assured by the inclusion of an attractive conversion feature.

According to the company's preliminary report for 1935, interest charges on all issues were earned about 1.6 times last year, as compared with 1.16 times in 1934. To some extent earnings last year were aided by the fact that the company was not compelled to absorb the losses of Postal Telegraph, a subsidiary now in the course of being reorganized. More important, however, was the marked gain in the company's manufacturing operations and the increase in the number of phones in operation. Moreover, in the first quarter this year the company reported a gain of 17,761 phones as against a gain of 14,014 in the first three months of last year.

There have been numerous occasions in the past when apprehension has arisen concerning the company's status when political outbreaks have occurred in the countries where extensive facilities are operated, notably Spain and Cuba. It is interesting, therefore, to note that the Spanish subsidiary contributed nearly 50% of the gain in new phones last year, while the Cuban subsidiary accounted for 6,000 units out of a total gain of 56,000. In the first three months of this year, the Spanish unit scored the largest increase in new phones.

The company's total funded debt amounts to approximately $193,000,000, of which the issue in question is outstanding in the amount of $50,000,000 and ranks equally with the two other series of debentures. At 84, the debentures 5's 1955 return a current yield just short of 6%, giving them obvious advantages for the purposes under discussion.

Preferred Stocks

Square D Co.		Houdaille-Hershey	
$2.20 A Preferred		$2.50 A Preference	
Amount Outstanding	123,316 shs	Amount Outstanding	174,000 shs
1934 Earned Per Share	$4.29	1934 Earned Per Share	$5.12
1935 Earned Per Share	5.84	1935 Earned Per Share	14.12
Call Price	$35	Call Price	$45
Recent Price	33	Recent Price	42
Yield	7.0%	Yield	6.0%

Square D Co.

$2.20 Class A Preferred

The Square D Co. is a thoroughly established enterprise engaging in the manufacture of an extensive line of light electrical equipment. Principal products include safety switches, panel boards, fuse boxes, compensators, circuit-breakers, insulators, switchboards, fire alarm station equipment, etc. Not only does industrial demand afford an important outlet for the company's products, but a substantial demand, in normal times, also emanates from private building and repair work.

With the single exception of one year, 1932, the company was able to show profits throughout the depression, but earnings were restricted to a point which necessitated the omission of dividends on the class A preferred shares in 1931 and payments were not resumed until 1934. Last year all accumulated dividends were discharged by the issuance of additional shares of class A stock and regular payments have since been maintained. At the present time there are 123,316 shares of the class A issue outstanding, on which annual dividend requirements amount to $271,300, approximately. Last year, the company also retired $399,000 6% debentures through the medium of a bank loan and a $375,000 issue of 5% debentures due 1945.

Earnings have recorded progressive gains since 1932 and in each of the past two years the gain in operating income has been about $400,000. Last year, net income after interest and depreciation, totaled $726,484, comparing with $428,769 in 1934. Applied to the increased number of class A shares, earnings last year were equal to $5.89 a share as against $4.29 a share on 99,969 shares in 1934.

Earlier this year stockholders voted to split the 73,550 shares of class B common three for one and early in April this issue was listed on the N. Y. Stock Exchange. Prior to the split-up a dividend of 25 cents plus an extra of 10 cents was paid to class B shareholders, a payment well justified by earnings of $6.19 a share last year. The latter would be equal to $2.06 on the new stock, which is quoted around 29. The class A preferred shares are listed on the New York Curb and are selling at 33, to yield about 7%. The shares are callable at 35, so that price appreciation is limited. From a straight income standpoint, however, they appear distinctly attractive.

Houdaille-Hershey Corp.

$2.50 Class A Preference

Although properly classified as a manufacturer of automobile supplies and equipment, these items having been estimated as contributing about half of the total volume, Houdaille-Hershey in common with other automotive

equipment manufacturers has achieved a wider range of interests in recent years and to this extent its dependence upon a single industry has been reduced. The company now supplies various equipment to makers of farm equipment, airplanes and electric refrigerators. In the main, however, the company's rising tide of fortunes during the past two years reflects the vigorous recovery of the automobile industry.

In the years 1932 and 1933, the company reported losses but the aggregate for these two years of about $700,000 was less than depreciation write-offs in either year and there was no drain on the company's finances. In 1934, earnings recovered sharply with net income of $931,401 favorably contrasting with the loss of about $114,000 the previous year. Last year the upturn in earnings was even more pronounced. Net profit totaled $2,456,196. Financial position at the year-end was excellent with current assets of $6,418,606 and current liabilities of $1,451,498, while cash was in excess of $2,750,000. The company's operations last year, of course, reflected the advanced date of new automobile models and some of the business which normally would have materialized in the first quarter this year was received in the final quarter of 1935. This condition plus unusual expenses and increased taxes resulted in a lower net in the initial three months of this year. Net profit of $603,183 compared with $902,869 in the corresponding period a year ago. Results in subsequent months, however, should reflect the favorable results to be expected from the introduction of several new products and sales in the opening weeks of April spurted sharply.

The capitalization of Houdaille-Hershey is comprised of 174,000 shares of class A preference shares and 784,956 shares of class B shares. Last year all accumulated dividends on the class A shares which totaled $4.37 on January 1, 1935, were paid off in cash and regular payments of $2.50 annually were resumed. Dividends on the class B shares were also resumed last year and are currently to be paid at the rate of 37½ cents quarterly. The class A shares have a prior claim on earnings up to $2.50 a share annually, are callable at 45, and are convertible into the B stock, share for share.

Earnings of $5.12 a share on the class A stock in 1934, followed by $14.12 last year indicate the margin of security for dividends. First quarter profits this year were equal to $3.46 a share for the A as compared with $5.18 a year ago. Selling at levels around 42, the shares yield 6% and over a period of time it is conceivable that their conversion may become valuable.

Commercial Investment Trust Corp.

Commercial Investment Trust is distinguished as the world's largest independent installment financing organization. Further than that, however, the company distinguished itself by reporting record-breaking earnings last year. Not only did the company's earnings last year attain a new peak but they did so by a considerable margin—better than 35 per cent more than in 1934 when the previous high level was recorded. With such a background it may appear strange that the shares have recently sold to yield 4%, when many other common stocks are quoted almost solely on the basis of potentialities, as yet unrealized, and yield from nothing to around 3%. The answer may be ascribed to the belief that Commercial Investment Trust is faced with increasing competition and lower profit margins. There is, however, a just basis for questioning whether these fears will be realized to the extent indicated by the recent action of the company's shares.

Common Stocks

Commercial Investment Trust		Firestone Tire & Rubber	
Shares Outstanding	2,519,792	Shares Outstanding	1,866,007
1934 Earned Per Share	$4.61	1934 Earned Per Share	$0.71
Recent Price	70	1935 Earned Per Share	1.53
1935 Earned Per Share	6.25	Recent Price	29
Dividend	$3.00 plus extras	Dividend	$1.20
Yield	4.2%	Yield	4.1%

Profit margins in the business of financing installment accounts are determined mainly by the differential between the cost of borrowing to the financing company and the rate of interest charged the purchaser of an automobile, refrigerator, etc. Commercial Investment Trust has been able to take full advantage of the extremely low money rates to borrow large amounts of short term funds and not until recently has there been any reduction in the terms on installment purchases. The leading finance companies have lately adopted the "6% Plan," which reduces cost and the mechanics of installment purchasing to its simplest terms. Whether this new plan was initiated because of the rising tide of competition from banks, or to forestall regulatory legislation inspired by the high earnings of finance companies, the point is that it has had the effect of practically putting all competition on a par as far as costs are concerned. Moreover, the move should gain for the finance companies considerable customer good will. The leading companies such as Commercial Investment Trust also have important connections with leading manufacturers which gives them an added advantage over local finance companies and banks. Therefore, while there is no doubt that they are meeting more competition, it is quite possible that this competition has passed its peak unless it is able to strengthen its hand by some technique not now known.

The purchase by Commercial Investment Trust in 1933 of the Universal Credit Co., from Ford greatly strengthened its position as the leading factor in automobile installment financing. In addition, however, the company has other automobile accounts. Although the company has energetically sought to diversify its activities by developing its factoring and industrial installment business, these latter accounted for only 30% of the total volume of business last year, the balance being in wholesale and retail automobile financing. As yet there is no reason to question the probable output of some 4,500,000 automobiles this year, a prospect which augurs for continued good earnings on the part of this company. Thus far, on the other hand, Ford sales are running behind 1935 and may not come up to the level of last year.

Yet it would require considerable skepticism indeed to doubt the ability of Commercial Investment Trust to earn its $3 common dividend this year by a comfortable margin. Net income in 1935 totaled $15,867,591 or the equivalent of $6.25 a share on the 2,519,792 shares of common stock. In 1934 per-share earnings on the common amounted to $4.61. In 1935, moreover, earnings absorbed six-months dividends on 250,000 shares of $4.25 convertible preference stock sold for the purpose of raising additional funds. In addition to the latter issue, the common is outranked by 140,461 shares of serial preference stock paying dividends of $6 and $18,461,000 5½% debentures of 1949.

(*Please turn to page* 62)

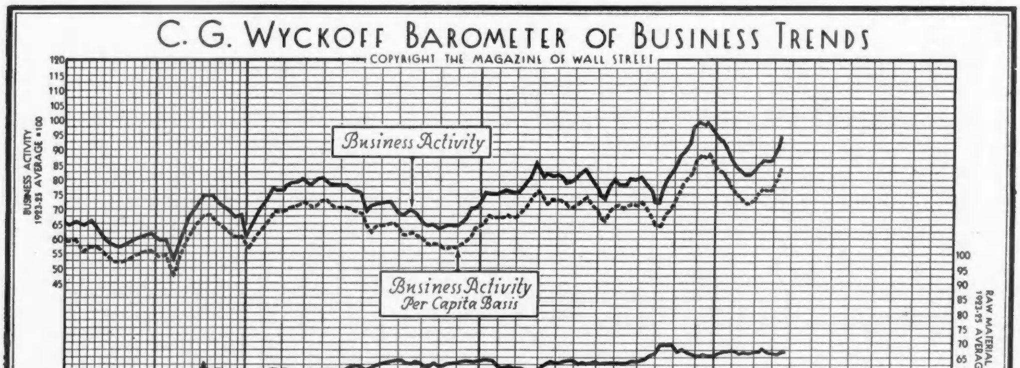
The Business Analyst

—Steel at New High
—Copper Demand Rises
—Oil Prospect Doubtful
—Rail Equipment Active
—Cotton Consumption Higher

DURING the month of March the country's physical volume of business amounted to 86.9% of the 1923-5 average, which was 6.5% better than in March, 1935. Comparison with last year was somewhat less favorable than had been anticipated a few weeks ago, owing to the temporary inroads upon business occasioned by eastern floods, and makes a poorer showing than the 9.1% annual increase in February and the 18.9% gain of January. Business for the entire first quarter showed an average improvement of 10.2% over the corresponding three months of 1935.

With all components showing marked improvement, our Business Activity index has staged a sharp post-flood advance of seven points during the past fortnight to around 94.0% of the 1923-5 average. On a per capita basis this is equivalent to about 84.0% of normal; which is 17% above last year at this time, and only 5% beneath the recovery peak of 88.7% reached last December. Automobile assemblies are now slightly ahead of last year at this season and at the best weekly rate for any comparable period since August, 1929. Unfilled orders are backing up and the industry expects operations to hold around present levels well into May. Part; producers are working six days a week in overloaded departments. Steel mill operations have expanded spectacularly to the best ingot rate since mid-1930. Electric power output has risen conspicuously during the past fortnight; though half the gain is estimated to have been caused by extra heating loads resulting from the recent cold snap, and so does not represent any comparable increase in general industrial activity. Coal production has shown but little increase since our last issue, since this is a season of the year when demand ordinarily tapers off; but the output is 70% greater than for the corresponding period a year ago when production slumped abruptly following the removal of strike threats. The recent contra-seasonal pick-up in car loadings is thus especially gratifying, because unaided by heavier coal shipments.

Factory employment in New York State, which is usually typical of the entire country, was 3.7% higher in March than for the like month of 1935, while payrolls were up 6.2%. Dividends declared last month exceeded those for March, 1935, by about 1%. The Bell System in March gained 85,000 stations and thereby recovered 40% of subscribers lost during the depression. New life insurance written in March showed the first gain for 1936 with an increase of 1% over the same month of 1935. Most of the improvement last month was occasioned by an 84% jump in group insurance over the previous March, the gain for the entire first quarter having been 63%, against an 8% decrease for all types of policies. Department store sales in March, and for the first quarter, were 9% ahead of the corresponding periods a year ago. In some sections of the country the Easter trade this year is reported to have been the largest in six years, though weather conditions in



other areas held down volume to about last year's level.

Our Common Stock Index, after advancing to a new high for the recovery, has recently displayed mildly reactionary tendencies under the pretext of disturbing political and financial conditions in Europe. There seems to be a rather widespread conviction that, after the French elections this month, the franc may part company with gold or be devalued. The ultimate effect of this upon security prices in this country is at present rather conjectural, though hopes entertained in some quarters that this may soon lead to world monetary stability appear to be unduly optimistic. So long as war clouds hang over Europe, no nation is likely to risk losing gold, especially in view of the threat in this country to sell to belligerents only for cash.

The Trend of Major Industries

STEEL—The steel ingot rate is now approaching 70% of current theoretical capacity, the highest in nearly six years. Backlogs acquired last month are sufficient to support operations at close to current levels through April; but new orders for finished steel are coming in at a slower pace than in March and it would not be surprising to see a tapering off in activities after May 1 when pressure for delivery under first quarter contracts will subside. The chief demand now is from the automotive and agricultural implement industries, with a fair call for rails. It is estimated that rail orders this year will expand to around a million tons, which would be 40% greater than last year. Scrap is showing some weakness; but the new prices for finished steel have as yet received only a moderate test. Not all producers have followed the open price plan and some are allowing more than one point of shipment to be specified and permitting delivery to be spread over ten days.

METALS—The only change in the non-ferrous metal situation since our last issue has been the establishment of copper on a uniform 9½ cents price basis, a development which was preceded by a quarter-cent rise in the price for export and a stampede by domestic consumers to stock the metal while still available at 9¼ cents. Sales for domestic and export delivery during the first 13 days of April amounted to 148,000 tons, compared with only 27,000 tons for the entire month of April last year. Sales this year to date total about 300,000 tons compared with only 100,000 tons during the corresponding period a year ago.

PETROLEUM — Crude production continues to increase at a rather unhealthy rate and, while crude inventories hold at an even level, motor fuel stocks are higher than they should be at this season of the year. Some concern is also beginning to be entertained over the Rodessa field where production has expanded by 40% since September and threatens to undermine the Mid-Continent price structure once adequate facilities can be provided for bringing the Rodessa oil to market. In spite of its present overcapacity, the industry is planning to spend up to $100,000,000 this year on new construction and modernization of plant. Considerations such as these may have been partly responsible for recent reactionary tendencies in oil stocks in the face of a general 2½-cent advance in gasoline prices throughout the State of California.

RAILROAD EQUIPMENT—Railroad equipment orders during the first quarter this year, compared with orders placed during the first quarter of 1935, amounted to 73 locomotives, against 9; freight cars 8,900, against 900; and 360,000 tons of rails, against 186,000.

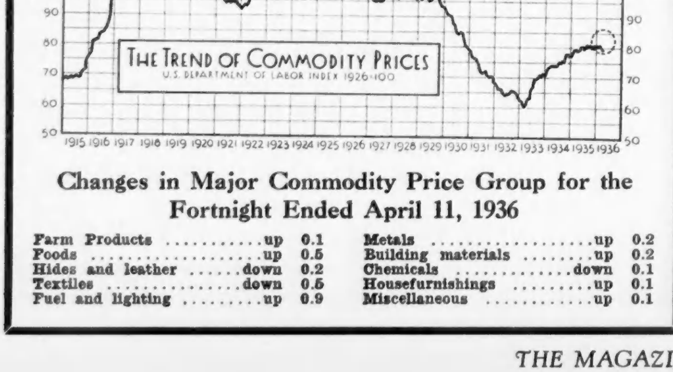
SHIPBUILDING—American shipyards are building 119 vessels of 166,000 tons, more than double the number and five times the tonnage under construction a year ago. Merchant vessel tonnage under construction throughout the world increased nearly 20% from January 1 to April 1 and, on March 31, amounted to 1,820,000 tons.

TEXTILES—Cotton consumed in this country during March amounted to 14% more than in March, 1935. Consumption for the first quarter gained 9% over the corresponding period a year ago. Exports for the first quarter were up 14% over the previous year. Damage to rayon stocks and loss of production due to the March floods is placed at about 6,000,000 pounds of yarn.

UTILITIES—The Edison Electric Institute estimates that a 16½% reduction in the average price of electricity for domestic use during the five-year period from 1930 to 1935 was accompanied by an increase of 155% in power consumed by radios and a 131% gain by electric refrigerators, while domestic use for other purposes remained stationary.

Conclusion

Business in the second quarter is off to a good start with a sharp spurt during the opening fortnight which brings the country's physical volume of production up to 17% ahead of the like season in 1935. In view of last year's receding trend, comparisons on an annual basis are likely to become progressively more favorable as the quarter progresses, barring unfavorable developments which cannot now be foreseen. The stock market, after advancing to a new high for the recovery, has turned somewhat reactionary under pretext of another crisis in the French franc. High grade bonds, including Governments, remain firm under the buoyant influence of expanding earnings and continued ease in interest rates. The Raw Material Price Index has rallied due to strength in agricultural staples resulting from crop scares.

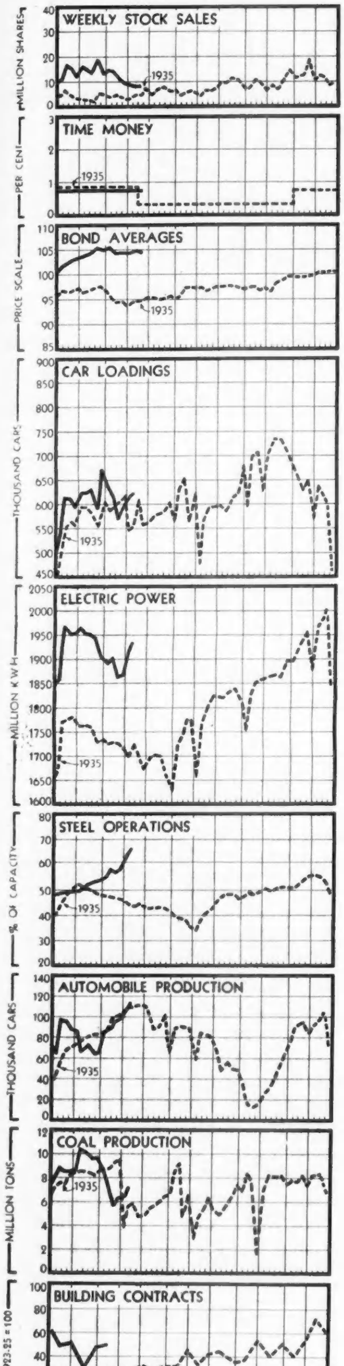


Changes in Major Commodity Price Group for the Fortnight Ended April 11, 1936

Farm Products	up	0.1	Metals	up	0.2
Foods	up	0.5	Building materials	up	0.2
Hides and leather	down	0.2	Chemicals	down	0.1
Textiles	down	0.5	Housefurnishings	up	0.1
Fuel and lighting	up	0.9	Miscellaneous	up	0.1

The Magazine of Wall Street's Indicators

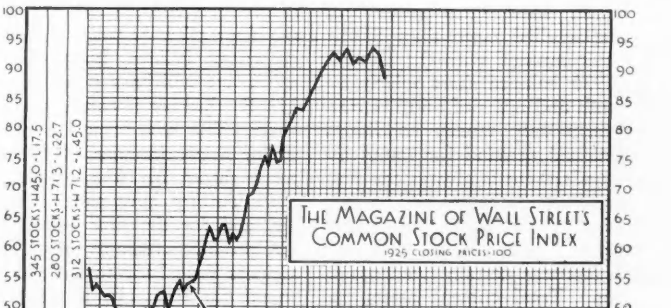
Business Indexes



Common Stock Price Index

1935 Indexes High 78.4	Low 43.0	Close 78.6	Number of Issues 295	(1925 Close—100) COMBINED AVERAGE	1935 Indexes High 93.9	Low 78.4	Apr. 4 93.9H	Apr. 11 92.6	Apr. 18 88.6
119.5	64.1	113.4	5	Agricultural Implements	186.9	113.4	186.9H	185.0	177.6
41.9	17.8	41.6	6	Amusements	50.8	41.6	49.5	47.6	44.9
116.9	44.6	116.9	14	Automobile Accessories	142.2	116.8	142.2H	137.3	130.5
17.7	8.8	17.7	13	Automobiles	24.2	17.7	24.2	23.4	22.4
108.2	41.3	108.2	7	Aviation (1927 Cl.—100)	141.0	104.3	141.0H	133.4	126.7
14.7	7.9	14.7	3	Baking (1926 Cl.—100)	17.6	14.6	15.8	14.9	15.0
325.0	184.9	318.6	2	Bot. & Cks. ('32 Cl.–100)	399.6	318.6	381.7	399.6H	389.8
209.9	113.7	209.9	3	Business Mac.ines	251.0	209.9	238.0	240.8	226.9
316.6	226.1	287.4	2	Cans	287.4	256.7	267.2	261.0	261.9
202.7	144.6	195.6	8	Chemicals	224.1	195.0	224.1h	221.3	208.9
42.8	22.6	42.8	10	Construction	62.9	42.8	62.9H	61.9	57.6
88.6	35.7	93.6	6	Copper & Brass	123.6	87.9	113.0	123.6H	119.5
39.3	27.5	39.3	2	Dairy Products	44.1	39.3	41.6	41.1	40.6
26.6	16.0	23.5	9	Department Stores	27.7	23.5	27.7H	26.7	25.5
87.6	56.1	85.8	7	Drugs & Toilet Articles	98.9	84.0	92.2	89.2	84.0x
270.0	211.2	231.8	2	Finance Companies	276.8	227.2	270.0	276.3	276.8H
66.2	51.8	62.0	7	Food Brands	70.1	62.0	68.4	66.8	66.4
56.4	46.2	47.1	4	Food Stores	50.3	44.8	47.1	45.2	45.1
65.7	32.1	65.7	3	Furniture & Floor Cover	76.9	65.7	76.9H	75.1	72.1
1209.7	990.2	1116.0	3	Gold Mining	1296.9	1116.0	1127.2	1118.2	1134.9
46.8	35.3	46.8	5	Household Equipment	54.4	46.8	53.4	53.8	50.5
38.7	17.0	38.3	5	Investment Trusts	45.3	38.3	44.4	44.2	43.1
359.0	223.6	323.8	2	Liquor (1932 Cl.—100)	323.8	295.9	316.7	316.1	295.9x
139.0	65.1	139.0	9	Machinery	160.8	136.5	160.8H	159.2	151.0
67.3	36.0	65.9	2	Mail OoIer	72.5	61.3	72.5H	70.7	69.6
63.0	34.5	62.4	4	Meat Packing	83.9	62.4	75.6	71.6	70.9
183.6	109.4	169.5	10	Metal Mining & Smelting	191.0	168.3	187.7	186.7	179.1
97.2	51.3	97.2	24	Petroleum	122.3	97.2	122.3H	118.8	116.0
67.2	23.0	67.2	18	Public Utilities	83.8	67.2	82.3	83.8h	78.9
33.0	15.9	31.5	3	Radio (1927—100)	35.4	29.7	33.6	32.6	29.7x
55.7	29.3	55.7	8	Railroad Equipment	73.8	55.7	63.8	61.7	59.3
28.8	16.5	27.3	24	Railroads	37.6	27.3	34.0	34.4	32.4
16.8	5.2	16.1	3	Realty	22.9	15.9	17.9	16.8	15.9x
76.4	28.5	76.4	3	Shipbuilding	87.6	73.0	83.4	78.1	73.0x
88.1	37.6	88.1	11	Steel & Iron	110.7	88.1	106.7	107.3	99.0
30.4	21.1	30.4	5	Sugar	41.3	29.8	37.4	36.3	36.8
153.6	122.5	153.6	2	Sulphur	175.6	153.4	163.1	158.8	156.1
78.3	34.2	77.5	3	Telephone & Telegraph	97.4	77.5	91.7	90.3	86.7
73.5	34.7	70.5	8	Textiles	81.4	70.5	76.9	76.2	71.7
10.6	6.0	10.6	4	Tires & Rubber	15.9	11.1	15.2	15.9H	15.7
101.8	77.2	96.5	4	Tobacco	100.2	87.2	90.7	89.4	89.2
85.4	51.0	72.1	4	Traction	76.2	69.6	74.8	73.0	69.6x
282.8	219.7	259.5	4	Variety Stores	267.8	239.1	254.5	245.7	239.1x

H—New HIGH record since 1931. h—New HIGH this year. x—New LOW this year.



(An unweighted index of weekly closing prices; compensated for stock dividends, splitups, and rights, and covering about 90% of the volume of transactions in all Common Stocks listed on the New York Stock Exchange.)

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U. S. RUBBER CO.

In view of the marked advance in U. S. Rubber's common shares already this year, what do you think of its course from here on? Are further advances in order, or is improvement pretty well discounted now? —L. C. B., Cincinnati, Ohio.

The longer term possibilities of U. S. Rubber common stock cannot be underestimated, when the progress of corporate rehabilitation over the past eight years is considered. At the close of 1927, bonds, short term notes and bank loans totalled more than $141,000,000 as compared with the December 31, 1935 balance sheet which included bonds and notes of $60,221,200. With present easy money conditions and a sustained demand for sound industrial bonds there is always the possibility that interest charges will be lowered further by a refunding of present 5% first mortgage bonds, the indenture of which contains certain burdensome restrictions. Total current assets, including $11,289,226 cash and marketable securities amounted to $62,545,527 at the end of 1935 and current liabilities were only $15,266,616. Per share results in 1935 were distinctly gratifying under normal operating conditions, but because of non-recurring charges of $4,676,855, a deficit of $2.03 a share was reported as compared with a deficit of $3.93 in the previous year. Eliminating these non-recurring charges in both years, per share results would have equalled a profit of $1.74 against a deficit of $3.17, respectively. This showing amply demonstrates the results of the corporate rehabilitation which has been taking place over a number of years when you consider that profitable operations were attained in 1935 while extremely low tire prices prevailed in the industry. Of course, an item of $500,000 as a dividend from U.S. Rubber Plantations, its wholly-owned subsidiary, helps as this is the first dividend received from the company since the depression began. There is every reason to believe, however, that this subsidiary will be a potential factor in U. S. Rubber's earnings in future years. The near-term future prospect is for a continuance of the improvement shown in 1935, as outbreaks of price cutting have subsided temporarily, and for the time being the major tire producers seem to be willing to participate peacefully in the increased demand for tires. In the past this has been the major reason for the chronic instability of the industry. The eliminating of cotton processing taxes is also a favorable factor in reducing tire costs, which combined with the cessation of special discounts, issued to meet destructive competition for the greater part of last year, hold promise of making 1936 the most profitable year since the depression set in. We look for continued improvement in the financial position of the company which will of course delay early dividends, but on the other hand it eventually will place the common stock in a position where regular disbursements can be made to stockholders. Although the issue has had a sharp rally in recent months, we feel present prices do not over-value the longer term possibilities for the company and further price appreciation will be the reward for continued retention of the shares.

TEXAS GULF SULPHUR CO.

I am pleased to note that the first-quarter sales have been better for Texas Gulf Sulphur. I would be interested in knowing if this trend should continue throughout the year, and if market improvement in the stock is now definitely in prospect.—P. McM. L., Chicago, Ill.

Improved domestic business and sharply increased exports are responsible for the improvement in Texas Gulf Sulphur's sales reported for the first quarter of this year and it is estimated earnings are currently at about the same level as in the final quarter of 1935 when per share results amounted to 57 cents. Exports over a number of years have averaged about 30% of total sales but this figure may be improved somewhat this year since Italy's war venture undoubtedly places Sicilian sulphur producers at a disadvantage in regard to

(Please turn to page 53)

When Quick Service Is Required Send Us Prepaid a Telegram and Instruct Us to Reply Collect

18½ Points in Minn.-Moline pf.

ON Tuesday, April 7, we advised our clients "Close out Minneapolis-Moline pf." The average price obtained was 71—appreciation of 18½ points over the original purchase price of 52½. Only the day before, April 6, we had telegraphed "Close out American Smelting above 85" accepting another profit of 23⅜ points.

These specific recommendations illustrate further, not only the possibilities for sizable profits that exist in the present market, but the manner in which under-valued situations are uncovered by our analysts.

> **127⅛ Points Profit This Year**
>
> **Already this year, on closed out commitments alone, our record shows total profits of 145⅝ points against losses amounting to 18 points. The average profit for all commitments was nearly 6 points.**
>
> **Year in and year out our record has been consistently outstanding. Last year, for example, we made available profits totaling 364½ points against 44⅜ points loss, or a net profit of 320⅛ points.**
>
> ***Enroll now to participate in the extension of our profit record this year.***

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The present market phase furnishes an excellent opportunity to weed out your securities which may prove sluggish either through lack of favorable prospects or because they have been largely discounted. We would analyze your present holdings and advise which of them to retain and which to sell; a program, especially adapted to your resources, aims and requirements, would be outlined in detail and thereafter, we would tell you, not only what to buy but when to close out each transaction. These commitments would be under the constant supervision of our market experts.

Business Activity Forecasts Selective Near-Term Advance

A background for sharply rising prices is provided by our Composite Index of Business Activity which is expected to average 18 to 20% higher than the second quarter of last year—the best second quarter since 1929. Outstanding profit possibilities, however, will be concentrated in comparatively few stocks.

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NAME .... CAPITAL OR EQUITY AVAILABLE ....

ADDRESS ....

CITY .... STATE .... Apr. 25

Include a Complete List of Your Present Holdings for Our Analyses and Recommendations

New York Stock Exchange

Rails

	1934 High	1934 Low	1935 High	1935 Low	1936 High	1936 Low	Last Sale 4/15/36	Div'd $ Per Share
A								
Atchison	74¾	45¼	60	35¾	86⅝	59	83¼	†2
Atlantic Coast Line	54¼	24½	37¼	19½	35¾	27	28⅝	..
B								
Baltimore & Ohio	34½	12¾	18	7½	24¼	16¼	21¼	..
Brooklyn-Manhattan Transit	44⅞	28¼	46¾	36½	50¼	40¼	48¾	3
C								
Canadian Pacific	18¼	10⅞	13¾	8⅝	16	10⅞	12⅞	..
Chesapeake & Ohio	48⅝	39½	53¼	37⅛	61	51	58	2.80
C. M. & St. Paul & Pacific	8½	2	3	¼	2⅞	1¾	2⅛	..
Chicago & Northwestern	15	3½	5⅝	1⅜	4⅞	3⅛	3¾	..
Chicago, Rock Is. & Pacific	6¼	1⅜	2⅝	¾	3	1⅝	2	..
D								
Delaware & Hudson	73½	35	43½	23½	52	36¾	48	..
Delaware, Lack & West	33¾	14	19⅛	11	23⅛	15¾	19⅝	..
E								
Erie R. R	24⅞	9⅜	14	7⅛	17⅝	11⅝	14½	..
G								
Great Northern Pfd	32½	12¼	35⅛	9⅝	44	32¼	38	..
H								
Hudson & Manhattan	12⅛	4	5½	2¾	5⅞	4	4½	..
I								
Illinois Central	38⅞	13⅝	22¼	9½	28⅞	19⅝	25⅛	..
Interborough Rapid Transit	17½	5¼	23⅝	8¾	18⅞	14¼	15	..
K								
Kansas City Southern	19¾	6⅝	14½	3¾	26	13	23	..
L								
Lehigh Valley	21¼	9½	11½	5	14⅜	8½	11¾	..
Louisville & Nashville	62½	37¾	64¾	34	77½	57½	76	‡2
M								
Mo., Kansas & Texas	14⅞	4⅜	6⅜	2½	9⅝	5½	9	..
Missouri Pacific	6	1½	3	1	4	2⅜	3	..
N								
New York Central	45¼	18⅜	29¾	12¼	42¼	27¾	40⅝	..
N. Y., Chic. & St. Louis	26⅞	9	19	6	35½	17¾	28½	..
N. Y., N. H. & Hartford	24⅛	6	8½	2⅝	5⅝	3¾	3⅞	..
N. Y., Ontario & Western	11⅝	4½	6½	2⅝	7½	5⅛	5⅛	..
Norfolk & Western	187	161	218	158	235	210	230	*8
Northern Pacific	36¼	14½	25¼	13⅛	36¾	24⅛	33⅜	..
P								
Pennsylvania	39⅛	20⅛	32½	17¼	39	31¼	33½	‡1
Pere Marquette	38	12	34½	9¼	35¾	29	32⅛	..
Pittsburgh & W. Va	27	10	25	6⅞	41¼	21	37⅝	..
R								
Reading	56⅜	35⅛	43⅛	29⅞	48⅜	35½	44	2
S								
St. Louis-San Fran	4⅝	1⅛	2	¾	3⅝	1½	2⅝	..
Southern Pacific	33¾	14⅞	25½	12¾	38⅞	23½	36¾	..
Southern Railway	36½	11½	16½	5½	20⅝	13⅞	17⅝	..
T								
Texas & Pacific	43¼	13½	28½	14	42	28	39	..
U								
Union Pacific	133⅞	90	111½	82½	138¼	108½	132⅛	6
W								
Western Maryland	17¼	7⅛	10⅛	5½	12⅛	8⅞	10½	..
Western Pacific	8½	2⅝	3⅜	1⅛	4	2⅛	2⅝	..

Industrials and Miscellaneous

	1934 High	1934 Low	1934 High	1934 Low	1936 High	1936 Low	Last Sale 4/15/36	Div'd $ Per Share
A								
Adams-Millis	34⅞	16	37¼	38	35¾	25½	25⅞	‡.75
Air Reduction	113	91¾	173	104¾	194	168½	191	*3
Alaska Juneau	23⅞	16⅝	20⅛	13¼	17⅜	14	14	*.60
Allegheny Steel	23⅛	15	32	21	39¼	30½	33	1
Allied Chemical & Dye	160¾	115⅛	173	125	208	157	200	6
Allis Chalmers Mfg	23⅜	10⅜	33⅞	12	50½	35⅜	48⅞	..
Alpha Portland Cement	20⅛	11½	22¾	14	28½	20½	26	1
Amerada	55⅝	39	80	48½	125½	75	109	2
American Bank Note	25¼	11½	47¾	13½	55½	42½	51¼	‡.50
Amer. Brake Shoe & Fdy	38	19½	42½	21	50⅞	42½	48½	1.20
American Can	114¾	90¼	149⅝	110	134½	115¾	124½	*4
Amer. Car & Fdy	33⅞	12	33⅞	10	41	32⅜	37	..
American Chicle	70⅝	46¼	96	66	95½	88	91	*3
American & Foreign Power	13¾	3⅞	9¼	2	9¾	7	8⅝	..
Amer. Power & Light	12¼	3	9⅝	1½	13½	7½	12¼	..
Amer. Radiator & S. S	17⅝	10	25⅛	10½	27⅜	20¼	23⅜	..
Amer. Rolling Mill	28¼	13½	32⅜	15¾	34	28⅛	29½	1.20
Amer. Smelting & Refining	51¼	30¼	64⅝	31⅝	91½	56¾	82¼	‡.80
Amer. Steel Foundries	26½	10⅛	25¼	12	33⅜	23¾	28⅝	..
Amer. Sugar Refining	72	46	70½	50⅛	61⅛	51½	53⅜	2
Amer. Tel. & Tel	125¼	100⅛	160½	98⅞	178	155¾	166	9
Amer. Tob. B	89	67	107	74¾	104	88½	92	5
Amer. Water Works & Elec	27⅝	12⅝	22¾	7⅛	25¼	20½	24⅛	..
Amer. Woolen Pfd	83¾	36	68¾	35½	70¾	60	64⅝	‡1
Anaconda Copper Mining	17¾	10	30	8	39½	28	39⅛	‡.25
Armour Co. of Ill	6¾	3½	6⅛	3¼	7⅜	4¾	5⅞	..
Atlantic Refining	35¼	21½	28	20½	35⅛	27⅛	32½	1
Auburn Auto	57⅜	16½	45½	15	54¼	40⅛	46¼	..
Aviation Corp. Del	10¾	3¾	5¼	2¾	7¾	4⅝	6⅜	..
B								
Baldwin Loco. Works	16	4½	6⅝	1½	6⅞	3	3¾	..
Bayuk Cigar	45¾	23	66¾	37½	76½	63½	70¼	*.75

Price Range of Active Stocks

Industrials and Miscellaneous (*Continued*)

	1934 High	1934 Low	1935 High	1935 Low	1936 High	1936 Low	Last Sale 4/15/36	Div'd $ Per Share
B								
Beatrice Creamery	19¾	10¼	20⅛	14	26	18	21½	†.50
Beech-Nut Packing	76⅝	58	95	72	90½	85	88	*3
Bendix Aviation	23⅞	9¾	24½	11⅞	31¾	21⅝	31¾	1
Best & Co.	40	26	57½	34	57¼	48	55½	*2
Bethlehem Steel	49½	24⅛	52	21⅝	63¾	52½	61⅝	..
Bohn Aluminum	68¾	44½	59⅞	39⅝	63⅛	52	53⅞	3
Borden Company	28¼	19⅞	27¾	21	30¼	25⅝	27¾	1.60
Borg Warner	31⅜	16⅛	70½	28¼	83½	64	78	3
Briggs Mfg	28⅜	12	55⅜	24½	64⅞	51½	54⅞	*2
Bristol-Meyers	37½	26	42	30⅜	48½	41	46	*2
Burroughs Adding Machine	19⅜	10½	28	13¼	33¼	25⅝	29	*.60
Byers & Co. (A. M.)	32¾	13¾	20⅝	11⅜	25¼	19⅞	21⅝	..
C								
California Packing	44⅜	18¾	42½	30½	37⅝	32½	33	1.50
Canada Dry Ginger Ale	29½	12½	17⅝	8⅛	16½	13	13½	..
Case, J. L	86¾	35	111¼	45¾	172	92½	170½	..
Caterpillar Tractor	38¾	23	60	36½	79	54¾	77⅝	2
Celanese Corp	44⅞	17⅛	35⅜	19½	32¼	26¼	27⅞	‡.50
Cerro de Pasco Copper	44½	30¼	65¾	38⅝	58	47¾	56¼	4
Chesapeake Corp	48⅞	34	61¼	36	74½	59	65½	3
Chrysler Corp	60⅜	29¼	93⅞	31	103⅞	85½	101⅜	4
Coca-Cola Co	161½	95¼	93	72½	97¼	84	88½	2
Colgate-Palmolive-Peet	18⅛	9⅜	21	15⅛	20½	17¼	17¾	.50
Columbian Carbon	77¼	58	101¼	67	134	94	127	*4
Colum. Gas & Elec	19¼	6⅝	15¾	3⅜	21⅝	14	20¼	‡.20
Commercial Credit	40¼	18⅝	58	39½	56½	44	56¼	2.50
Comm. Inv. Trust	61	35¾	72	56¼	72⅞	55	71¾	*3
Commercial Solvents	36¾	15¾	23⅞	16½	24⅝	19	19⅝	.60
Congoleum-Nairn	35⅜	22	27	45¾	44½	35½	38	1.60
Consolidated Edison of N. Y.	47⅜	18½	34¾	15⅞	38⅝	30⅝	33⅛	1
Consol. Oil	14¼	7¼	12¼	6½	15¼	11⅞	13⅞	‡.25
Container Corp. "A"	....	....	23⅛	22	26¼	19⅜	22¼	..
Continental Can	64½	56¾	99¼	62¾	87¼	73½	79	3
Continental Insurance	36¼	23⅜	44⅞	28⅞	46	39¾	42	*1.20
Continental Oil	22¾	15¾	35	15⅛	38½	33½	34¼	1
Corn Products Refining	84½	55½	78⅜	60	78½	68½	76	3
Crown Cork & Seal	36¼	18¾	48⅞	23½	63¾	43⅝	62⅞	1
Cudahy Packing	52⅝	37	47½	35⅛	44½	38⅝	40⅛	2.50
Cutler-Hammer	21½	11	47	16	65	43¼	58	‡.25
D								
Deere & Co.	34⅛	10⅛	58¾	22¾	89¼	52	84½	....
Diamond Match	28½	21	41	26½	40½	36	36	*1.50
Distillers Corp.-Seagrams	26⅝	8⅞	38½	13⅝	34⅝	22½	23⅛	..
Dome Mines	46¼	32	44⅞	34⅛	52⅜	41½	44½	*2
Douglas Aircraft	28½	14¼	58⅜	17½	75¾	50⅝	64⅞	..
Du Pont de Nemours	103⅞	80	146½	86⅝	153	138	150	3.60
E								
Eastman Kodak	116½	79	172¼	110½	170½	156½	165	*5
Electric Auto Lite	31⅜	15	38⅜	19⅜	44⅝	36½	40½	1.20
Elec. Power & Light	9⅝	2¼	7½	1⅛	16⅜	6⅜	15¼	..
Electric Storage Battery	52	34	58¾	39	55¼	48⅝	49	*2
Endicott Johnson Corp	63	45	66	52¾	69	62⅛	65	3
F								
Fairbanks, Morse	18¾	7	39½	17	53⅜	34¾	51	..
Firestone Tire & Rubber	25¼	13⅛	25½	13⅛	33⅛	24⅞	31½	1.20
First National Stores	69¼	53	58⅞	44⅜	48¼	40½	44½	2.50
Foster Wheeler	22	8½	30	9⅞	38¾	27	35	..
Freeport Texas	50⅜	21½	30⅝	17¼	35⅝	28½	31½	1
G								
General Amer. Transpt.	43⅝	30	48½	32⅝	63	47⅛	47¾	1.75
General Baking	14⅜	6½	13⅜	7⅜	14⅜	12	12⅝	.60
General Electric	25¼	16⅞	40⅞	20½	41⅞	36⅛	40⅞	1
General Foods	36⅞	28	37½	30	37⅜	33⅜	37	1.80
General Mills	64½	51	72½	59⅞	70½	59¾	63	3.00
General Motors	42	24⅝	59⅜	26⅝	71	53⅞	69⅜	*2
General Railway Signal	45¾	23½	41¼	15⅝	50	39½	42½	1.00
General Refractories	23⅜	10⅛	33½	16¾	44½	33½	40½	†.50
Gillette Safety Razor	14⅞	8½	19½	12	18⅝	16⅜	16⅝	1.00
Glidden	28⅜	15⅝	49½	23⅜	55¼	45¼	52½	2.00
Gold Dust	23	16	22	14⅜	21⅜	18⅝	19⅛	1.20
Goodrich Co. (B. F.)	18	8	14½	7½	23⅞	13⅝	23⅜	..
Goodyear Tire & Rubber	41⅜	18½	26⅞	15¾	31⅞	21¾	31⅝	..
Great Western Sugar	35¼	25	34⅞	26⅝	39	31	34⅛	2.40
H								
Hercules Powder	81⅝	59	90	71	105½	84	101½	*3
Hudson Motor Car	24½	6⅛	17½	6¼	19¾	15	18	..
Hupp Motor Car	7¼	1⅞	3⅞	¾	3¼	1	2⅛	..
I								
Industrial Rayon	32¼	19⅜	36⅜	23½	34⅝	28½	32	1.68
Ingersoll-Rand	73¾	49½	121	60½	147	117	125½	*2
Inter. Business Machines	164	131	190½	149¼	185¼	173	183¾	*6
Inter. Cement	37¾	18⅜	36⅞	22⅞	49¾	35½	47⅝	1.50
Inter. Harvester	46⅞	23¼	65⅝	34⅛	89½	56⅝	87⅜	1.20
Inter. Nickel	29¼	21	47¼	22¼	54¼	44⅛	49⅝	1
Inter. Tel. & Tel	17¾	7½	14	5⅝	19¼	13	15¾	..
J								
Jewel Tea Co	57½	33	67	49	77½	58½	74	4
Johns-Manville	66⅜	39	99½	38½	129	94⅛	112½	2
K								
Kelvinator	21¼	11⅝	18¼	10¼	25⅝	14¾	23½	*.50
Kennecott Copper	23⅛	16	30⅜	13¾	41⅝	28¼	40¾	1
Kroger Grocery & Baking	33⅝	23¼	32⅛	22¼	28	23¼	24	1.60
L								
Lambert	31¾	22¼	28½	21¾	26¾	22	22¼	2
Lehman Corp	78	68¼	95¾	67⅛	100¾	94	98	3
Libbey-Owens-Ford	43⅞	22½	49¼	21½	63⅛	47¼	58¼	2
Liggett & Myers Tob. B	111¼	74½	120	94¼	116½	97¾	103	*4
Loew's	37	20⅜	55⅛	31¼	54⅞	45½	45⅝	*2
Loose-Wiles Biscuit	44¾	33¼	41⅝	33	45	40½	42	2
Lorillard	22½	15¾	26½	18½	26½	21⅞	22⅛	1.20

New York Stock Exchange Price Range of Active Stocks

Industrials and Miscellaneous (Continued)

	1934 High	1934 Low	1935 High	1935 Low	1936 High	1936 Low	Last Sale 4/15/36	Div'd $ Per Share
M								
Mack Truck	41¾	22	30⅝	18⅝	37	27⅜	35	1
Macy (R. H.)	62⅛	35¼	57½	30½	49⅜	42⅞	43⅞	2
Mathieson Alkali	40¾	23½	33⅞	23¾	36½	30	32⅛	1.50
May Dept. Stores	45¾	30	57¾	35⅞	53½	46⅝	47½	2
McIntyre, Porcupine	50½	30½	45⅝	33¾	49⅜	39⅝	41¼	2
McKeesport Tin Plate	95⅛	79	121	90½	118½	103⅛	110	*4
Mesta Machine	34¾	20⅛	42⅝	24⅛	50¾	40⅝	48⅝	2
Monsanto Chemical	96½	39	94¾	55	103	89¼	99	*1
Mont. Ward & Co	35⅝	20	40⅞	21¾	45¼	35¾	43⅝	‡.50
N								
Nash Motor	32¼	12⅝	19½	11	21⅞	17⅜	20⅛	1
National Biscuit	49½	25⅞	36⅜	22¼	38¾	32½	34½	1.60
National Cash Register	23⅝	12	23½	13½	30	21½	26⅞	.50
National Dairy Prod	18¾	13	22⅛	12⅞	25¼	21¼	23¼	1.20
National Distillers	31⅝	16	34½	23⅛	33⅜	28½	31⅜	2
National Lead	170	135	206	145	305	204	302½	5
National Power & Light	15½	6⅝	14¾	4⅞	14⅞	9¾	11¼	.60
National Steel	58¼	34½	83¾	40⅜	75	64¼	65½	1.50
N. Y. Air Brake	28¾	11½	36½	18½	42	32½	39	..
North American	25¼	10¼	28	9	32⅛	25⅛	29	1
O								
Otis Elevator	19⅜	12½	26⅝	11⅛	32¾	24½	29	.60
Owens Ill. Glass	94	60	129	80	164	128	162¼	6
P								
Pacific Gas & Electric	23½	12⅜	31⅝	13⅛	39⅝	30¾	37¼	1.50
Pacific Lighting	37	20¾	56	19	56⅞	49	53½	2.40
Packard Motor Car	6⅝	2¾	7½	3½	13	6⅞	11⅜	‡.10
Paramount Pictures	....	....	12	8	12	8¼	8⅜	..
Penney (J. C.)	74¼	51½	84¾	57¼	79	69	77½	*3
Penick & Ford	67	44⅝	81	64½	73	64½	69⅜	3
Phelps Dodge	18⅞	13¼	28⅛	12¾	40¼	25⅝	39¾	‡.25
Phillips Petroleum	20¾	13⅜	40	13¾	49⅜	38⅛	46¼	*1
Pillsbury Flour Mills	34¾	18½	38	31	37¼	33½	34	1.60
Procter & Gamble	44⅜	33⅛	53¾	42⅜	49	44⅝	46¼	1.50
Public Service of N. J	45	25	46¾	20⅜	48¾	40	41⅞	2.40
Pullman	59⅜	35¼	52⅞	29½	48½	36⅞	44¾	1.50
R								
Radio Corp. of America	9⅛	4½	13⅜	4	14¼	11¾	12½	..
Radio-Keith-Orpheum	4¼	1½	6	1¼	9¼	5	6⅝	..
Raybestos-Manhattan	23	14½	30¼	16½	38¼	28⅞	37¼	1.50
Remington Rand	13⅜	6	20¾	7	23¾	19⅞	24½	..
Republic Steel	25¾	10½	20¾	9	26¾	18¼	24¼	..
Reynolds (R. J.) Tob. Cl. B	53¾	39¾	67	55¼	58⅝	51½	52¼	3
S								
Safeway Stores	57	38¼	46	31⅝	35½	30	33⅝	3
Schenley Distillers	38⅞	17⅛	56¼	22	52	43¼	44½	..
Sears, Roebuck	51¼	31	69⅞	31	69¼	59⅝	66	2
Servel	9	4⅜	17	7⅝	22½	15⅝	20⅜	‡.12½
Shattuck (F. G.)	13⅞	6¾	12⅞	7¼	16¾	11⅛	15⅞	.50
Shell Union Oil	11½	6	16½	5½	19¼	15¼	17¼	..
Socony-Vacuum Corp	19⅞	12½	15¾	10⅝	17	14	15	.40
So. Cal. Edison	22⅛	10⅛	27	10⅝	28¾	25	27⅜	1.50
Spiegel May Stern	76¾	64	84	43⅞	77¾	63	74	3
Standard Brands	25¼	17¼	19⅛	12½	18	15⅜	16	.80
Standard Oil of Calif	42⅞	26½	41⅛	27¾	47⅝	39⅞	43⅞	*1
Standard Oil of Ind	32¾	23¼	33⅜	23	40⅛	32¾	37¾	1
Standard Oil of N. J	50⅛	39¼	52⅜	35¾	70	51⅛	63	*1
Sterling Products	66½	47¼	68	58¾	71¾	65	70	3.80
Stewart-Warner	10⅝	4½	18⅞	6⅝	24	17¼	23⅝	.50
Stone & Webster	13¼	3⅞	15⅛	2½	21¼	14⅝	19¾	..
Sun Oil	74½	51½	77	60½	91	72	85	*1
T								
Texas Corp	29⅜	19⅝	30¼	16½	39½	28⅞	38⅛	1
Texas Gulf Sulphur	43¼	30	36¾	28¾	38¾	33	34¾	2
Tide Water Assoc. Oil	14⅜	8	15⅞	7⅝	19⅛	14¾	17⅛	†.25
Timken Roller Bearing	41	24	72½	28⅜	72½	65¾	68¾	*3
Tri-Continental	6¾	3	8¼	1⅞	12	7⅛	10	..
Twentieth Century-Fox	....	....	24⅞	13	32⅜	22⅝	27¼	..
U								
Underwood-Elliott-Fisher	58⅞	36	87¼	53¾	99	86	93	2.50
Union Carbide & Carbon	50⅞	35⅞	75¾	44	88⅜	71⅝	85½	2
Union Oil of Cal	20½	11½	24	14¾	28½	23⅛	25½	1
United Aircraft	15¼	8⅛	30⅜	9⅞	32⅜	24⅛	25½	..
United Carbon	50⅜	35	78	46	79¼	68	78¾	2.40
United Corp	8⅞	2⅛	7¾	1½	9¼	6½	6⅞	..
United Corp. Pfd	37⅞	21¼	45¾	20¾	47¾	42¾	44½	3
United Fruit	77	59	92¾	60½	79	66½	73½	3
United Gas Imp	20⅛	11½	18½	9¼	19½	15⅞	16	1
U. S. Gypsum	51¼	34¼	87	40½	110½	85	101	*1
U. S. Industrial Alcohol	64¾	32	50⅝	35⅛	59	39	54⅜	2
U. S. Pipe & Fdy	33	15½	22⅝	14¾	38½	21½	37½	‡.50
U. S. Rubber	24	11	17¼	9⅛	35	16⅜	34⅝	..
U. S. Smelting, Ref. & Mining	141	96⅝	124½	91¾	96½	84½	91	[illegible]
U. S. Steel	59⅞	29⅜	50⅝	27½	72⅜	46⅜	70⅞	..
U. S. Steel Pfd	99½	67¼	119¼	73⅝	132¾	115½	130⅞	3
V								
Vanadium	31¾	14	21¾	11¼	27¼	20¼	22⅝	..
W								
Warner Brothers Pictures	8¼	2¾	10¾	2¼	14⅝	9¾	11	..
Western Union Tel	66⅞	29½	77¼	20⅝	95	72⅞	87	[illegible]
Westinghouse Air Brake	36	15⅞	35¾	18	48⅛	34¾	44½	1
Westinghouse Elec. & Mfg	47¼	27⅞	98¾	32⅝	122⅞	94½	121	3
Woolworth	55¼	41¼	65¼	51	56⅜	47¾	48	2.40
Worthington Pump & Mach	31⅞	13½	25¼	11¾	35½	23½	31¼	..
Wrigley (Wm., Jr.)	76	54½	82¾	73¾	79	75⅜	76¾	*3

* Annual Rate—not including extras. † Paid last year. ‡ Paid this year

Answers to Inquiries

(Continued from page 48)

sales and shipments. While this is only a temporary factor, the export prospects over the near term and considerably brighter for American producers. Domestic consumption of sulphur and sulphur derivatives follow the trend of business activity closely and since the outlook is improving for the paper, textile, petroleum refining, iron and steel, and chemical processing trades, which use the larger portion of sulphur products, it is logical to anticipate further consumption gains this year. Full year results in 1935 of $1.94 per share almost equalled current dividend payments of $2.00 per share as compared with earnings of $1.81 per common share in 1934. Furthermore, this improvement is based on the enlarged capitalization of 3,840,000 shares, which was increased in 1934 from 2,540,000 shares. The new stock was given in payment for ownership of properties formerly operated on a royalty basis. As of December 31, 1935, total current assets of $25,945,694, of which cash and U. S. Treasury notes aggregated $10,190,107, compared favorably with current liabilities of only $1,956,454. The capable management of Texas Gulf Sulphur has succeeded in improving the longer term prospects of the company during a trying period by the increase of its own sulphur reserves and the elimination of royalty payments This will be an important factor in future earnings since the margin of profit increases directly with the volume of output.

With a further increase in sales volume anticipated throughout 1936, the current dividend is practically assured and the stock is not over-discounting the future possibilities of the company from a longer term viewpoint. When considering the stable nature of the company's business and its strong financial condition we believe the issue holds attraction as an income producer with definite future appreciation possibilities.

NATIONAL DAIRY PRODUCTS CORP.

Do you believe the uptrend lately seen in National Dairy Products will continue in 1936? Would you continue to hold 200 shares averaging 14¾?—T. J. M., New York, N. Y.

In line with recovery of general public purchasing power, net sales of National Dairy Products Corp. continued the uptrend established in 1934, with the result that net profit totalled $9,338,205, equal to $1.38 on the common shares, after preferred dividend requirements. This compares with $6,551,930 or 93 cents per common share in 1934. The most recent favorable development for common stockholders is the refunding of the present $65,839,500 of Debenture 4¼s, of 1948, by an issue of $62,545,500 of 3¾% Debentures, due 1951, and the borrowing of $7,000,000 from banks at 2½% interest for five years, payable in semi-annual instalments. The new debentures will have common stock warrants to purchase, one share of common stock at $25 per share until May 1, 1938, and at $28 per share until expiration on May 1, 1940, for each $100 principal amount of debentures. Common stockholders have the right to purchase debentures at the rate of $500 principal amount for each 50 shares held. While the indebtedness of the company will be increased by $3,706,000 as a result of the refunding, total interest on the new debt will be nearly $1,000,000 less than on the old funded debt. This roughly amounts to 16 cents per common share. As the largest unit in the trade, the company will only be moderately capitalized under the new setup and for the year ending December 31, 1935, the company's balance sheet maintained its usual liquid position when cash alone of $22,039,090 more than covered total current liabilities of $19,250,154. As a result of the improvement in all divisions of activity in 1935, the company attained the nearest approach to normal operations since 1931. Further advances in industrial employment and increased payrolls are in prospect for the present year and should result in a further extension of the upward trend of earnings. While increased operating costs may, to some extent, retard the accelerating earning power somewhat, the longer term prospects for the company are distinctly favorable. The present $1.20 dividend offers an attractive yield and on the basis of the current satisfactory return and longer pull market possibilities, we advise further retention of your holdings.

GENERAL RAILWAY SIGNAL CO.

With General Railway Signal selling back 4½ points from its 1936 high, I am wondering if the possibilities for the next few months are such as to warrant holding it, or if it would be better for me to take fifteen points profit at the present time.—G. L., Dayton, Ohio.

Due largely to the completion of work on the New York City Subway, General Railway Signal Co. started the current year with unfilled orders considerably below those shown at the

close of 1934. Nevertheless, there are definite prospects that the company will be able to show higher earnings this year than last, when the equivalent of $1.75 a share on the common stock, after preferred requirements, compared with a deficit equal to $1.50 a share in the preceding year. This is based upon the improved earnings status of the railroads and their consequent better position to place orders for equipment. During recent years the company has had to depend almost entirely on replacement orders, which naturally were held at a minimum by the strained finances of the carriers. However, there was some improvement noted in 1935 in total replacement bookings, although this was still well below average. Since the railroads are particularly anxious to cut costs, there doubtless will be an expanding demand for the various control and signal systems offered by the company. In many instances these permit savings of as much as 50%. The financial status of General Railway Signal has been well maintained and at the close of 1935, current assets totalled $4,816,372, including cash of $1,228,899, and current liabilities were $459,754. Preceding the 321,030 shares of common stock outstanding at the end of the year, were 23,038 shares of 6% preferred stock, par $100. In the past, the company has shown sizable per share earnings on its common stock, these having amounted to $8.25 in 1929. In view of the fact that maintenance of railroad properties has been held at a minimum during the depression years, it seems logical to assume that there are a tremendous number of potential orders which will be released just as soon as finances of the roads permit. General Railway is well situated to participate in such business and with products manufactured of the cost reducing variety marked earnings gains should be registered ultimately. It is primarily on that basis that we recommend maintenance of your long position in the stock, despite the fact that the present income return is only about 2.3%.

STUDEBAKER CORP.

I bought 100 shares of Studebaker Corp. at 9⅛ on the basis of your analysis last November. Now that I have 5 points profit I am wondering if this stock possesses further speculative possibilities. Your views will be appreciated.—A. F. C., Rochester, N. Y.

Although Studebaker Corp. for the period from March 9, 1935, to December 31, 1935 showed a somewhat larger loss than reported by receivers for the year 1934, the management has stated that the favorable reception enjoyed by the new 1936 models was not fully revealed in the report. For the period from November 1, 1935 to February 29, 1936, there was a marked gain in sales of both passenger cars and trucks. For the first quarter of the current year retail deliveries ran some 56% ahead of the like interval of the preceding year and continuance of this improvement is at least in near term prospect. Reorganization of the company in March of 1935 concluded the two-year receivership and placed the company on a sound financial basis, with a simplified capital structure; there are now only 2,140,869 shares of common stock preceded by $6,843,804 6% convertible debentures. The 1935 year end balance sheet showed net working capital of $6,758,586, with cash alone amounting to $5,160,352. It has been estimated that the company under present conditions can operate profitably with production ranging from 6,000 to 6,500 cars monthly. March production figures suggest that the organization is now in the "black" and, if demand is further extended, very worth while per share earnings could easily be shown. Of course, the competitive situation is keen and organizations such as Studebaker are hard pressed to hold their own with the better entrenched Ford, Chrysler and General Motors. However, the evident success of the present management thus far suggests that further gains in the industry as a whole will be participated in by the company. We accordingly again recommend further holding of your stock despite the very worth-while profit which you now enjoy.

FRANK G. SHATTUCK CO.

I am indeed pleased I held my Frank Shattuck shares on your advice when I wanted to sell last October, as I now have over 5 points profit. Would you please advise me now on its probable progress from here? W. S., Boston, Mass.

With the report for the year 1935 Frank G. Shattuck & Co. showed net sales at approximately $17,700,000, continuing the improvement registered since the low of the depression year 1933 ($15,000,000). Even in that year, however, the company had a net income equal to 26 cents a share after depreciation and taxes. In 1935 the net income about doubled the 1933 figure, being equal to $698,000 or 55 cents a share on the outstanding stock. More than any other factor, the improvement in volume of sales and earning power is attributable to increased public purchasing power, and so long as that prospect continues this concern should be benefited. Frank G. Shattuck & Co. was incorporated in 1906, an outgrowth of an older business, and over a period of years has established a reputation and maintained a standing with the public such as to make the factor of competition one of relatively minor importance. The company operates about 40 stores located in New York City, Boston, Syracuse, Newark, New Jersey and Philadelphia. The stores are equipped for the comfort and convenience of patrons and the completion of air-conditioning in all stores will stimulate business in the summer. The exclusive use of the name "Schrafft's" was included in the purchase of W. F. Schrafft & Sons Corp. in 1929, and agencies to sell the products of its candy and ice cream factories were acquired in 1930. The company also maintains a large bakery and laundry. These are elements in reducing operating costs and make for efficiency and stability of profit margins. Maintenance of a strong financial position is characteristic of the reports issued by this company, and the capital structure is simple, consisting solely of 1,269,170 shares of capital stock (no par value). There are mortgages outstanding on real estate properties to the extent of $725,000. In the outlook for the immediate future it is reasonable to expect continued expansion in volume in line with widespread improved public purchasing power, helped by progress this company is making in expanding its own facilities. In view of this prospect we believe continued retention of your holdings is fully warranted.

AMERICAN CHAIN CO.

Are the prospects of American Chain such as to warrant further retention of its common stock, purchased at 41½? To what extent would the common and preferred stockholder benefit by the plan said to be under consideration for a capital readjustment to take care of unpaid dividends on the preferred issue?—C. R., Scranton, Pa.

At its inception in 1912, American Chain Co. began a program of expansion, acquiring numerous manufacturing concerns in this country, Canada and England, and as now constituted is a recognized leader in its field.

The products range from lightest weight chain to heavy strand. The expansion program has been a gradual process, marked by conservative financial management, maintenance of a strong cash position, and a policy of liquidating capital obligations whenever feasible, and conservative accounting practice which report earnings after generous allowances for depreciation and amortization. The balance sheet at the close of the year 1935 showed total current assets of approximately $9,400,000 against current liabilities of only $1,300,000. During the year 1935 the company called the entire issue of 6% Collateral Trust Notes outstanding, partly by refunding at private sale serial notes at lower interest rates. Earn-

ing power reached a peak in 1929, when the company reported operating income of about $5,300,000. Since the low point in the depression year 1932, when a deficit from operations of approximately $1,600,000 was shown, operating income has been reported at about $1,000,000, $2,000,000 and $3,000,000 successively in 1933, 1934, and 1935. Earnings in 1935 were reported at $4.11 a share on the common stock after allowing for preferred dividend requirements. As of April 1, 1936, dividend accumulations on the preferred stock totaled $22.75 a share, and the company is reported as considering a plan of capital readjustment to eliminate these arrearages. The effect of an equable plan would be beneficial to both preferred and common stockholders, since it would discharge the contractual obligations to the preferred stockholders, and clear the way for dividend consideration on the common stock should future earning power justify such action. The position of this company from a trade standpoint justifies the expectation of a continuation of the uptrend already established in earning power. It can look to a wide field of increasing industrial activities for larger sales volume. While the automobile business is an important contributor to earnings, other lines such as building, railroads, and construction industry can be depended upon to place a considerable volume of business with this company. Recently the company received a contract for 2,500,000 feet of special bridge wire for use on the lower Mississippi River Flood Control Project. With its long experience and efficient plant facilities, the prospects for American Chain are favorable. We recommend retention of your holdings.

UNION CARBIDE & CARBON CORP.

Do you believe the speculative possibilities of Union Carbide & Carbon shares are such as to merit their retention as an investment when the yield at current prices is but 2.3%? Are increased dividends and higher prices an early possibility?—W. W. S., Los Angeles, Calif.

The earnings report of Union Carbide & Carbon Corp. for last year was the best recorded in any year since 1930, with the equivalent of $3.03 a share on the capital stock comparing with $2.28 in 1934 and $1.59 for 1933. Because of the diversity of companies and businesses using the products manufactured by the company, its earnings tend to closely follow economic trends. The steel industry represents the company's principal consuming outlet, and the earnings recovery registered last year was achieved in spite of the continued low level of operations in that field. This

was made possible by the constantly expanding demand for older lines and also by the fact that the active research policy of the organization has multiplied the number of outlets through development of new products and uses. Last year, sales of oxygen and acetylene for welding and cutting purposes were the best in the history of the company. There was also a pronounced gain in sales of ferro-alloys which are finding increasing application in airplane construction, structural steel, equipment for chemicals, stainless steel trains and numerous other fields. Indications are that this branch of the company's business will assume a much greater importance from an earnings standpoint over coming years. The chemical division of Carbide's business has gained rapidly during recent years, with the textile and rayon industries employing increasing quantities of its products. The company has also met with considerable success in the sale of an anti-freeze compound and plastics. The company effected a substantial savings in interest charges last year through the refunding of all domestic subsidiary obligations. This was accomplished through the sale of $16,750,000 principal amount of 3½% 15-year debentures which were placed privately. With total admitted assets in excess of $336,000,000 the small amount of funded debt preceding the common stock is negligible. Financial condition of the organization has been well maintained and at the close of last year current assets stood at $87,439,864, including cash of $25,971,130, comparing with current indebtedness of $15,986,740. Considering the almost unlimited potential application of the numerous gases, chemicals and alloys produced, the future of the company cannot be regarded as other than distinctly promising. With present earnings running substantially above the $2 annual rate on the stock an increase or extras seem a logical expectation. We accordingly feel that you would do well to continue your long position in the stock, disregarding the present low yield.

SKELLY OIL CO.

In view of the improvement shown by Skelly Oil in 1935, the rumors of its consolidating with another oil company, and the possibilities of a payment on the preferred arrearages, is the future still optimistic for the common stockholder?—S. A., Bloomington, Ill.

The 1935 report of Skelly Oil Co. showed earnings equivalent to $2.16 a share, comparing with only 31 cents a share reported in 1934. It does not follow necessarily, because of this exceptional increase, that the prospect offers little chance for further improvement On the contrary, the factors which operated to enable the company to record such a pronounced recovery are still favorable, and continue as important indices of sustained improvement. Results for the year 1935 showed increases in sales of gasoline, lubricating oils and greases, and in the gross business of Skelgas, a subsidiary which markets liquefied gas in cylinders throughout the Middle West. It was also announced that the sale of automobile tires, batteries and accessories through the company's own service stations was an important factor in 1935 earnings, and business from that source is growing increasingly important. Skelly Oil reported an increase in crude oil production, drilling 163 wells on its properties, of which 146 were oil wells, 6 were gas wells and 11 were dry. The interests of this company take in all branches of the petroleum industry. Production locations are mainly in Kansas, Oklahoma, Texas and Louisiana and New Mexico. The company operates natural gasoline plants in various parts of the Middle West, and has a refinery with a daily capacity of 20,000 barrels in Kansas. Skelly is a well-integrated unit, and could advantageously negotiate merger terms, if such a procedure were contemplated. There is no confirmation or denial of the rumors to this effect, which probably originated in the wording of the listing agreement in connection with the debentures sold in January, 1936. So far as dividend arrears on the preferred issue now amounting to about $28 a share are concerned, it has been stated recently that the directors were giving the matter consideration, and with the recent financing which resulted in substantial interest savings successfully carried through, the matter of preferred dividend accumulations should not present a formidable problem. Considering the trade position of the company and the favorable position of the industry which it represents, we feel that an optimistic attitude toward the common stock at this time is justified and retention of your holdings logical.

Shell Union Oil Corp.

(Continued from page 41)

profit totaled $6,812,835 as compared with a loss of $1,353,901 in 1934. After allowance for dividends on the 5½% preferred stock (not paid) net for 1935 was equal to 37 cents a share on 13,070,625 shares of common stock. Working capital increased last year and cash and Government securities were some $8,000,000 higher. The sum of $36,000,000, or $14,000,000 more than in 1934, was spent on the plant and property.

With better operating results plus the expedient of transferring a special reserve of $15,000,000 to surplus account, a balance sheet deficit of $18,435,041 was supplanted by a surplus of $3,419,589. The next step will probably be the resumption of dividends on the 400,000 shares of preferred and the formulation of some plan for liquidating the accumulations of $26.13 a share. Given the benefit of anything like normal conditions in the oil industry, Shell Union would be in a position to reap the belated benefits of its strongly integrated position and the common, although a fairly large issue, has both near term and long pull speculative merit. Recent quotation 17.

National Supply Co.

The business of National Supply Co. is concerned principally with providing the oil industry with such products as drilling machinery, engines, pipes and various tool products. Notwithstanding the sustained high demand for petroleum products throughout the depression, the same factors responsible for the severely restricted demand for all types of new machinery and equipment were present in the oil industry and reflected in the operations and earnings of National Supply.

Last year was the first since 1930 in which the company's volume of business was large enough to show a profit. Consolidated net income in 1935 amounted to $670,620, contrasting with a net loss of $121,486 in the preceding year. In the years 1931-1934 inclusive the company suffered losses totaling about $11,300,000. The company was compelled to suspend dividends on both its own 7% preferred stock and the 6% preferred shares of Spang, Chalfont & Co., a subsidiary. All current dividends on the latter issue were paid last year and currently have been continued to date. Accumulations total $14.50 a share, while accumulations on the parent company preferred total $31.50 a share. These arrears aggregate $1,884,130 and $5,235,961 respectively. It is to be doubted that these amounts will ultimately be paid fully in cash, nor is it likely that any recapitalization seeking their elimination will be undertaken pending more complete recovery of earnings.

Annual dividend requirements on both issues of preferred stock, however, total only about $2,000,000 and no considerable gain from the 1935 level of earnings would be required to provide full coverage. From present indications, there is an excellent chance that the company will show earnings on the common this year. Reports have it that operations in the first quarter re-

turned a profit, as against a deficit a year ago, and the company is financing the larger volume of business through the medium of bank loans. The latter outstanding at $1,500,000 at the end of 1935 have since been increased to $1,800,000. The better showing this year may be traced to increased drilling operations on the part of the oil industry and the currently favorable statistical position of the industry suggests that drilling activities may be further encouraged.

In addition to the two issues of preferred stock, there are $6,294,000 of 6% 1st mortgage bonds of Spang, Chalfont outstanding. The common stock of National Supply, on the other hand, is outstanding in the amount of only 382,656 shares. This combination provides an effective leverage factor which apparently is not being overlooked in the current market appraisal of the shares. Granted, therefore, that late quotations around 33 discount no small measure of improvement in current earnings, there is no gainsaying the longer term potentialties.

Profits in Copper Trend Upward

(Continued from page 37)

rather than silver, it is to be doubted that the future will witness any serious drop in profits.

Reflecting principally the acquisition of the United Verde mine, Phelps Dodge last year had the largest increase in output of any of the major copper producers. Output totaled 176,875,836 pounds of copper, an increase of 70 per cent over 1934. Deliveries against sales gained 112 per cent to 351,996,687, resulting in a substantial net reduction in the company's stocks. The company received an average of about a quarter of cent more per pound last year for copper sold both in the United States and abroad. The effect of these constructive developments on earnings was particularly marked. Net income of $6,147,878, before depletion, was equal to $1.21 a share on the 5,071,240 shares of stock, an increase of 100 per cent over profits, equivalent to 60 cents a share in 1934.

Throughout the depression Phelps Dodge has pursued an aggressive program of expansion, adding substantially to its ore reserves and enhancing its position among the nation's leading fabricators of copper products. The company is classed as a low-cost producer, with sizable recoveries of gold and silver serving to cut the net cost of copper output.

Financial position is comfortable despite the heavy drain on quick assets occasioned in the acquisition of United Verde and with a rapidity of earnings recovery which has been above the average for the industry, the current dividend of 25 cents quarterly appears wholly secure. Being exclusively a domestic producer, the company's fortunes are more dependent upon the course of copper demand and copper prices in the United States, and the domestic outlook at the present time is sufficiently promising to lend speculative appeal to the shares. Recent quotation, 39.

Although one of the comparatively smaller producers, Magma Copper has had an unusual record. A dividend has been paid in every year since 1925, and since 1932 earnings have shown a good measure of recovery. The company's producing costs are extremely low, having averaged last year only 5.62 cents per pound of copper as compared with 5.73 cents in 1934. Earnings were equal to $1.63 a share on 408,000 shares of stock, while in 1934 the stock earned the equivalent of $1.58 a share. Financial position continues sound despite the fact that $2 annual dividends in the past two years have exceeded earnings. Current assets at the end of last year were $5,261,368, including cash of more than $3,000,000, while current liabilities were only $574,083. Late reports have indicated successful development work, adding considerably to the life of the company's ore bodies.

Due to the comparatively small amount of stock outstanding, the shares have a rather "thin" market. At 40, however, they yield a good return with which is combined rather interesting speculative possibilities for price enhancement.

Calumet & Hecla Consolidated Copper Co. recently resumed dividends by the declaration of a 25-cent payment, the first since 1930. Last year was also the first since 1930 that the company has shown a profit in excess of operating expenses, and working capital also showed an increase, the first since 1929. Net income before depletion was $1,691,583, equal to 33 cents a share for the capital stock, comparing with an operating deficit in 1934. The company was formerly one of the leading copper producers in the United States and is still the foremost producer in the Lake Superior district, but depletion of ore reserves has made Calumet & Hecla one of the higher cost producers. Apparently, however, profits can be shown with copper averaging 8 cents a pound or better. Any further substantial rise in the company's profits, however, would have to be preceded by higher copper prices and larger demand. In this connection, it might be noted that owing to certain qualities possessed by "lake" copper it commands a premium of 1/8 of a cent a pound and is in heavy demand by the United States Navy and the automobile industry. The shares, at 13, are not undervalued and must be considered as distinctly speculative.

Hudson Bay Mining & Smelting Co. is a comparatively young company and as its principal property was not brought into production until 1930, it has had no adequate opportunity to demonstrate its earning power under favorable conditions. Since 1930, how-

ever, the company has eliminated $5,000,000 in funded debt, largely through conversion into capital stock, and discharged $1,200,000 in bank loans. The 2,757,973 shares of stock now outstanding comprise the entire capitalization.

Last year Hudson Bay earned a net profit of $3,215,187 (Canadian currency) or $1.16 a share on the stock. This compares with 58 cents a share in 1934 and 31 cents in 1933. In addition to copper, the company produces substantial quantities of zinc and moderate amounts of gold and silver. Recently operations have been maintained at capacity basis and with copper prices quite likely to average higher this year, further earnings gains are definitely foreshadowed. Two dividends of 50 cents each were paid last year—one out of surplus and the other out of earnings—and further payments at the same rate at least appear to be a valid expectation for this year. The shares have lately sold around 27 and would seem to possess the aspects of a fairly promising speculation.

For Greatest Progress in 1936

(*Continued from page* 13)

erating rate of United States Steel and that of the so-called independent steel companies which are more heavily dependent on the lighter steels. Today that gap has been narrowed to less than 9 points, with "Big Steel" at 60 per cent of capacity.

The above trends have been reflected in this equity's market action. It plummeted from a 1929 high of 261¾ to a 1932 low of 21¼, then rebounded to 67½ in the summer of 1933 and did not top that price until recently, when it reached 71⅝. The issue is high on current earnings, but those earnings have a long way to go before reaching either the $21.19 per share shown in 1929 or the average of $14.67 per share earned over the five years 1925-1929. Looking to the future, we are unable to dispute the speculative consensus that United States Steel common offers far greater potentialities of appreciation than General Mills.

In a table accompanying this article will be found thirty typical consumption goods stocks, contrasted with thirty typical durable goods issues. It will be observed that twenty-five out of the thirty consumption goods equities are lower today than they were at the best prices of 1933 or, in other words, that the great majority of these issues not only made no progress in 1934, 1935 and 1936 to date, but tended to lose ground. If one had purchased these thirty equities in July, 1933, a heavy loss would now be shown on balance.

On the other hand, twenty-six out of the thirty durable goods issues are higher now than at the best level of the 1933 recovery spurt and most are very substantially higher. Against their aggregate advance, the combined loss in the other four is insignificant. In short, at the top of the 1933 market, recovery for capital goods and consumers' durable goods companies had just started.

It may be that some consumption goods stocks will work higher this year. It may be that the majority of the durable goods equities have discounted the future somewhat liberally and have overlooked the threat of price slashing such as that making sporadic appearance in some building materials—but we would think twice before arguing with a verdict which the stock market has apparently reached after long and deliberate consideration. That verdict holds that the speculative odds for "the pull" still lie with the durable goods group, so far as industrials are concerned. This checks with our own view of the economic horizon. Putting the two opinions together, we wish the consumption goods group well, but we would rather bet on the others—forgetting rallies and reactions and sitting tight for the final recovery drive whether it comes in 1936 or later.

How New Taxes Affect Investment Selection

(*Continued from page* 23)

set aside certain reserves and for those who have signed bond indentures or other contracts which limit their freedom of action. Plans are afoot to tax companies only 22½ per cent of earnings retained by virtue of such contracts. It becomes clearer, however, the more one studies the new tax plan, that President Roosevelt had not looked very far when he talked of "simplification of corporate taxes." In its original form the proposal was the kind of simplification that says everyone must wear a "15" collar; some it would fit, others would float, while yet others would quickly strangle to death. So with the tax plan and the many exceptions and liberalizations that will have to be made in the final draft of the legislation show that Washington at least recognizes this fact in part.

It is always hazardous to base specific action on general conclusions formed from unenacted legislation and it is not recommended here that anyone do so, but it does seem as if the proposed taxation favored the well-entrenched, perhaps more or less static, concern over the dynamically expanding or widely fluctuating organization. The well-entrenched static concern is more likely than not to possess already a large liquid surplus and to be paying out the greater part of its earnings. In this case it does not have to worry a great deal about building up a still larger reserve and will probably find that its dividend policy needs little adjustment. On the other hand, even though the penalties can be avoided by issues of additional stock or other means, it is going to be more complicated than it is now to utilize earnings for expansion or for the purpose of building up reserves.

It is unfortunate that this should have come to a head just as the country is emerging from a terrible depression. Many companies need to build up reserves which have been impaired over the past few years; the country needs the stimulus of expansion that has been lacking so long. And now, just as corporations see a chance to build up their weakened constitution and to build those plants of which they have talked so often, they find themselves up against a new kind of barrier, a barrier which may or may not be an effective bar to their plans but which is nevertheless an obstacle for all that.

Then, too, the new tax plan seemingly will alter to some extent the status of some investments according to their type. The less a company has in liquid surplus, and it is assumed under the new plan that they will tend to be smaller, the less secure are its senior securities, bonds and preferred stocks. One must remember that it does not matter how valuable a piece of property may be, the interest on the mortgage is paid in cash and not by delivery of a small hunk of the property. Thus, the new tax plan may mean, in a time of business recession, an increase in bankruptcies and foreclosures.

Remembering that the general trend of business, of the industry, and of any particular company's position in its industry are more important investment factors than either the Social Security taxes or the proposed taxes on corporations, one can conclude nevertheless that the Social Security Taxes (1) Are in general favorable towards highly mechanized industry and towards those who cater to such mechanization (2) Are in general unfavorable to anything approaching hand-craft industries. As for the new corporate taxes, they will have less unfavorable repercussion upon (1) Financially strong organizations, unencumbered with debt, and upon profitably static companies and (2) That they will react unfavorably upon fluctuating businesses, financially-weak and debt-ridden companies and upon small companies which otherwise might be favorably situated for growth.

In Recovery, Boom and Panic

(*Continued from page 26*)

financiers and capitalists—recently remarked to a friend of the writer's: "My stock account today shows a profit of about $13,000,000. But if I should sell out I would have left no more than $2,500,000 after paying Federal and state taxes."

It need hardly be said that this individual can not afford to be concerned over the possibility of intermediate reactions in the market. Indeed, he will be hard put to it to decide at some future time whether it would cost him more to cash his profits or hold his stocks through the next depression! The example is an extreme one, but the same influence extends all down the line. Suppose, for example, a man bought 2,000 shares of Allis-Chalmers at $12 a share in March, 1935. This could have been done for $24,000 cash or less on margin. The buyer would not be thought of as a "big shot" by any means. Yet he would now have a paper profit of about $74,000 and, if he lives in New York State, his total Federal and state income taxes will approximate $22,000 or 11 points on his stock. The chances are he will decide to "sit tight" until he is convinced the recovery tide has reached its limit.

Another change in the market has been unusually large European buying of American equities, both for investment and speculation. In part this reflects Continental war and monetary fears, but probably the larger part reflects increased British investment and speculative interest in the American recovery, which, by consensus of European opinion, has further to go than the revival in England.

The Artificial Factor

Finally, there is the vastly important —and highly debatable—matter of the Government's deficit financing and the resultant great expansion in bank deposits. This is an experiment in controlled credit inflation, the longer consequences of which remain to be seen; but of all changes in this country's economic and financial status it is certainly the most significant and, therefore, a vital stock market factor.

As a result of the Government's credit policy and the inflow of gold from Europe, total bank deposits have increased by approximatetly $11,500,000,000 since the banking holiday. The total now stands at, roughly, $50,000,000,000 or not much more than $5,000,000,000 under the figure at the close of 1929. This is the country's money supply with which about 90 per cent of our aggregate business is conducted.

What will happen to business and commodity prices and stock values when the Government decides sooner or later—under pressure of public opinion frightened by continued Federal deficits—that the time has come to halt bank deposit inflation? Will there then be a transition to private credit expansion—a kind of confidence inflation? Is the present stagnation in private credit due to fear of the Government's deficit financing policy?

These are complex questions only in part capable of answer today; but in respect to the latter let us ask another question which appears to answer itself. What need is there for private credit expansion when the Government has already inflated bank deposits—the check money of the country—to within striking distance of the boom time level? In short, it appears that the low tide of private credit reflects not fear of the Government policy so much as the fact that the adequacy of the supply of credit already created by the deficit financing precludes the need for private credit expansion.

It therefore does not follow that private credit will "take over the reins" when and if the Government decides to taper off credit pumping. In other words, the substitution of Government credit for private credit—which began under President Hoover—appears to be a continuing and probably permanent thing—at least until we get our fingers so badly burned in a repetition of the 1929 crash that public opinion will vent its fury on political management much as it did on banking management in recent years. That will not be for some time. If the credit control theory of Marriner S. Eccles, chairman of the Federal Reserve Board, is right it may never happen. That remains to be seen.

Mr. Eccles believes it is a good thing for the banks to carry the great bulk of the Government's debt. This is a new departure. In our war time bank credit inflation, a huge total of Government bonds was bought by private investors. When the Government began retiring these obligations—paying off more than $9,000,000,000 between 1919 and 1920 —billions of dollars flowed back into individual bank deposits and thence into stocks and bonds, whether new issues or old, thus contributing greatly to the boom of the '20s.

In contrast, the present huge total of Government bonds held by the banks has been paid for by a mere write-up of bank credit. When and if the Government tapers off its spending and retires debt, these credits will not be transferred to individual depositors but will be extinguished, reducing the total

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New York Curb Exchange

Active Issues

Quotations as of Recent Date

Name and Dividend	1936 Price Range High	1936 Price Range Low	Recent Price
Alum. Co. of Amer.	152	87	138½
Amer. Cyanamid B (.60)	40¾	29¼	36⅜
Amer. Gas & Elec. (1.40)	43¾	37½	38
Amer. Lt. & Tr. (1.20)	25	17⅜	22¾
Atlas Corp. (‡.40)	16¼	13	13½
Butler Bros.	10⅞	7⅝	9½
Bower Roller Bearing (1)	29¼	23	24
Cities Service	7⅜	3	5¼
Cities Service Pfd	59⅞	41½	52
Colum. G. & E. cv. Pfd. (5)	114	93	106¾
Commonwealth Edison (4)	112	97	105
Compo Shoe (.50)	15⅜	15⅝	15⅜
Consol. Gas Balt. (3.60)	92	84	91½
Crane Co	31	25⅜	30
Creole Petroleum (†.20)	34¾	19⅞	29
Doehler Die Casting	35⅜	28	31¾
Driver Harris (1)	39	33	36
Elec. Bond & Share	25½	15¾	22⅛
Elec. Bond & Share Pfd. (6)	87	74¾	83
Ex-Cell-O A. & T.	23⅝	17¾	18¼
Ferro Enamel (.80)	40½	28⅜	37¾
Flintkote A (*1)	45	44½	45
Ford Mot. of Can. "A" (†.50)	28¾	23¾	23¾
General Tire	93	73	84½
Glen Alden Coal (1)	18⅛	14⅜	14⅜

Name and Dividend	1936 Price Range High	1936 Price Range Low	Recent Price
Hall Lamp (‡.10)	8¾	5⅞	7⅞
Gulf Oil of Pa. (‡.25)	98	72	91
Hudson Bay M. & S. (1)	28⅜	22¾	26½
Humble Oil	76½	62½	69¼
Imperial Oil (*.50)	24⅜	20⅛	23
Iron Fireman (1)	31½	25	26
Jones & Laughlin	44	30	39
Lake Shore Mines (*2)	59½	51	52¾
Lynch Corp. (2)	55½	34⅝	46
Mueller Brass (.80)	35½	26¾	29⅛
National Sugar Ref. (2)	30	23	28⅞
Newmont Mining (2)	93¾	74¼	91¼
Niagara Hudson Pwr	11¾	8¾	9¾
Niles-Bement-Pond	44⅞	32¼	43⅛
New Jersey Zinc (2)	92⅜	69½	83
Pan-Amer. Airways (1)	66¾	45¾	60⅛
Parker Rust Proof	28½	25	26⅝
Pepperel Mfg. (3)	70½	61	62⅝
Perfect Circle (2)	41	31½	37¾
Pitts.-Pl. Glass (*2)	140	98¼	134⅛
Sherwin-Williams (4)	145½	118½	140½
South Penn Oil (*1½)	40½	32½	38½
United Shoe Mach. (2½)	90	83	87½

* Includes extras. † Paid last year.
‡ Paid this year.

of deposits and thereby exerting a deflationary influence.

Short of a disastrous and general European war, the one certainty in this market is that the basic upward trend of equity prices will not be more than temporarily interrupted as long as the Government is the biggest bull of all.

Happening in Washington

(*Continued from page 11*)

De-Commissioning, and depopulation of governmental agencies will not get far. The vitality, the approach to immortality, of a bureau under whatever name is incredible. Senator Byrd's committee and the President's new brain-trust commission to destroy commissions will get nowhere.

The President, when candidate, was a voracious consumer of commissions—he ate them in the quivering flesh. But Hoover, lover of commissions, was a one-man executive compared to Roosevelt. Nothing in the world is so necessary to the morale of a political army as plenty of useless, dignified, well-paying public jobs.

Economics as the mother of politics is daily demonstrated in Washington. Interstate Commerce Commission is torn between contending transportation interests. Railways want to put in the economical pick-up-and-delivery service which the I. C. C. has been preaching for years, and then it halts them because the truckers, who have ruined the railroads by price-cutting, can't stand the reverse competition. On the other hand, the railways have so long been hauling empty passenger cars that they can't imagine an experiment with reduced fares, which the commission has ordered. This order will stand, but the truckers will hold the fort until next November.

President's Baltimore "opening gun" speech is not considered a brilliant communication—but it is rated as politically "safe". It is interpreted as meaning that an effort will be made to jam through a short-week law Policy on legislation seems to be to give the dissatisfied classes any kind of socially uplifting legislation they may demand. Having lost most business support, it is considered shrewd to solidify and augment the Democratic mobilization of labor, farmers, little business men, intellectuals, the unfortunate, frustrated youth, the radicals.

Favorable reception for measures to that end can do no harm; few can pass, but the record of the gesture remains. President is now considered, as Farley puts it, to have re-election "in the bag." In order to avoid any chance of "unfortunate incidents" he will refrain from outright support of specific measures. Speeches will be idealistic but not rabble-rousing.

The Menace of Erosion

(*Continued from page 28*)

of land destruction. One hundred and forty-one demonstration projects (soon to be 350) have begun the reclamation and defense of the retreating farms. Twenty thousand farmers with 2,000,000 acres have enlisted, more than 20,000 with 4,200,000 acres are on the waiting list; hundreds of thousands are watching and copying. Scarcely a farmer in the nation but is erosion conscious, especially now that soil conservation instead of non-production has been made the nominal justification of A A A subsidies. Fields are plowed with horizontal (contour) furrows; pocked and pitted and scarred sick land is planted with trees or grasses, fertilizing legumes, and vines; some are alternated in strips of grass and tilled land, the ugly sores of the relentless gullies are stopped by damming, riprapping, tree and shrub planting; sloping lands are terraced, skinned areas are planted to anything that will grow on them, thus starting the age-long process of making them of some value centuries hence.

It's largely a new adventure—but it is an inspiring one, and the reward of victory will be a nation rescued from slow decadence.

Why the New Banking Laws May Prove Disappointing

(*Continued from page 15*)

attitude of the big banks of the reserve cities.

They have always dominated the banking sentiment of the country, the Federal Reserve banks, the Federal Reserve Board, and the policies of the United States Treasury, and there is no evidence of any important change in this situation.

I consider monetary and banking reform the most vital problem of civilized countries. It is quite likely that the preservation of our present democratic type of government depends upon its solution, but I am sorry indeed to say that I do not see any such substantial progress as intelligent people might reasonably expect to achieve out of the bitter experience of this disastrous depression, which in the final analysis is but one of the inevitable periodic breakdowns of an impossible credit currency system and the consequent withdrawal of a large fraction of our only medium for exchanging goods and services.

Over-the-Counter

Active Issues

Quotations as of Recent Date

INDUSTRIAL	Bid	Asked
American Book Co. (4)	73	76
Canadian Celanese	26	29
Climax Molybdenum (.80)	43	44½
Columbia Broadcasting "A" (2)	53⅝	55⅛
Crowell Publishing Co. (*2)	52	54
Dictaphone Corp. A (3)	58	61
Draper Corp. (†2.40)	70	72
Mercke Co. (.40)	32½	34½
National Casket (3)	52½	55
Northwestern Yeast (8)	71	74
Scovil Mfg. (1)	35	....
Singer Mfg. Co. (*8½)	348	353
Trico Products (2.50)	47⅜	48⅞
Wilcox & Gibbs (1)	24	....

PUBLIC UTILITIES	Bid	Asked
Alabama Power Pfd. (7)	73	75
Carolina Power & Light Pfd. (7)	91	93
Central Maine Power Pfd. (7)	64	67
Columbia Rwy. Pwr. & Lt. Pfd. (6)	109¾	111¼
Consumers Power Pfd. (6)	105½	106½
Dayton Power & Light Pfd. (6)	111	113
Jersey Central Pwr. & Lt. Pfd. (7)	90	92
Kansas Gas & Electric Pfd. (7)	111½	....
Kings Co. Ltg. Pfd. (7)	94	96
Long Island Ltg. Pfd. (7)	84	86
Nebraska Power Pfd. (7)	112¾	114¼
New Jersey Pwr. & Lt. Pfd. (6)	103½	105
Pacific Power & Light Pfd. (7)	78	80½
Tennessee Elec. Power Pfd. (6)	61½	62¾
Tennessee Elec. Power Pfd. (7)	72⅝	73⅝
Texas Power & Light Pfd. (7)	100	102
Utica Gas & Elec. Pfd. (7)	96½	98

TELEPHONE & TELEGRAPH	Bid	Asked
American Dist. Tel., N. J. (4)	115	118
Mountain States Tel. & Tel. (8)	139	141¼
Northwestern Bell Pfd. (6½)	117	119
Peninsular Telephone (15c)	19	20
Southern New Eng. and Tel. (6)	143¼	145¼

* Includes extras.

Commercial Investment Trust Corp.

(*Continued from page 44*)

Financial position is sound and the presence of more than $119,000,000 in bank loans is not unusual for an enterprise of this type.

Last year dividends paid to common stockholders totaled $3.10 a share, including extras. Regular dividends are currently being paid at the rate of 75 cents quarterly and doubtless will be augmented by extras from time to time. At 70, the shares are conservatively appraised both in relation to late earnings and prospective profits. The shares have much to recommend them both for income and longer term price appreciation.

Firestone Tire & Rubber Co.

Since last Fall, the tire industry has been making sincere efforts to eliminate the chaotic selling practices and competitive tactics which have long been a thorn in its side. Thus far these efforts have met with encouraging success and they have a good chance of meeting the test of the spring selling season close at hand. As this is written there is a general belief that tire prices will be advanced early in May, a move enirely justified by higher crude rubber prices and the prospective increase in current wages and taxes. Further, the industry as a whole is in a normal inventory position. Should these developments eventuate, they may be calculated to have a favorable affect upon the current earnings of Firestone Tire & Rubber Co.

Firestone is one of the four largest companies engaging principally in the manufacture of automobile tires and the company's activities embrace every phase of the rubber manufacturing industry. An extensive chain of service stations is owned as well as large crude rubber plantations and two cotton fabric mills. Throughout the depression, the company was able to avoid losses and in only two years did it fail to show fairly substantial earnings on the common stock. Dividend on the common have been paid in varying amounts without interruption.

Sharply increased sales last year enabled the company to show a gain of more than 100% in common stock earnings. For the fiscal period ended October 31, 1935, net income of $5,649,000 was equal to $1.53 a share as compared with $4,154,000, or 71 cents a share in the 1934 fiscal year.

The parent company has no funded debt but guarantees subsidiary bonds to the total of $17,350,000. There are 466,111 shares of 6% preferred stock and 1,866,007 shares of common stock outstanding. The leverage provided by this capital set-up is such that a 10% increase in net before fixed charges would produce an increase of better than 20% in earnings available for the common.

Firestone had working capital of more than $47,000,000 last October and cash of $11,613,000 exceeded bank loans of $9,000,000. Finances are such that dividends can logically be expected to conform closely to the trend of earnings. The present rate of $1.20 annually has been in effect since early this year and at 29 the shares yield better than 4%. Facing an improved outlook and backed by a record exceptional for the industry, Firestone common invites favorable consideration both for income and profit.

As I See It

(*Continued from page 7*)

big business and its bankers by those who are trying to establish a new order.

Tremendous advantages can be gained by marshalling a substantial array of loyal security owners believing in the justice of the cause of big business. The politicians could not afford to antagonize such a strongly united and determined force. This ingredient of good-will can be counted as the most valuable asset of any corporation. It is the basis on which its goods are sold—its factories built—and its financing accomplished.

Significant Foreign Events

(*Continued from page 21*)

been exasperated, since the threat of conscription added insult to injury; the Phoenix collapse will cost Czech policy holders about 500,000,000 Czech crowns, which is the amount estimated lost by the Czechish branch of the insurance house. Anxiety has been expressed for the future of the Czecho-Slovac-Austrian Trade Agreement, which had barely reached its final stage of negotiation when the two bombshells burst, the one financial, the other diplomatic. Before going into effect the Agreement must have the assent of the League, since it establishes several articles for extra most-favored nation treatment, on the basis of the long-established exchange between the two regions.

For Features to Appear In the Next Issue

See page 3

France at the Crossroads

(Continued from page 19)

increase government expenditure, to lower interest rates, to check Treasury short-term borrowing, and to establish a permanent institution for State employee pensions.

A century ago, Balzac discovered the inconsistencies of French political economy—"It attempts to raise the price of wheat and reduce the price of bread." Today it attempts to reduce the manufacturing cost price with government measures designed solely to increase the cost of living and prevent reductions in wages and salaries.

Looking further back into the history of France—conditions at the turn of the Eighteenth Century present a close resemblance to those of today. Even with two centuries between, there is the same crisis of under-consumption of manufactured products, the same complaints of the peasants regarding the derisory prices of wheat, wine, beef and beet-roots. The same dwindling of purchasing power—the same spread of unemployment. Will the social consequences of one century repeat themselves in another? Between the seeds of Rousseau and the fruits of Robespierre, the Eighteenth Century ended and the Nineteenth began. Marie Antoinette upset the applecart in 1789, Stavinsky may have done the same in 1934. In any event, France is now in the throes of political upheaval. Radical, left wing strength appears to be in the ascendancy, but whatever the outcome of the approaching elections, all colours and complexions of the electorate are reaching the point of exasperation. The government of the politicians, for the politicians and by the politicians is finished—the end of the Third Republic may soon be at hand.

All that is lacking is a leader. Even if France is suffering from low pressure in salesmanship, its patriotic blood pressure is high. But neither Flandin, Laval or Tardieu captured the popular imagination. No one has emerged with the elan of Henry IV—no one with a clarion call "Ralliez-vous a mon panache blanc." France awaits a symbol—whether the flowing plume is white for the Right or red for the Left makes no particular difference. Germany was awakened by posterior persuasion, Italy by uniformed elegance and France, waiving aside all individualism, would respond to a bugle call "pour la Gloire et la Patrie." But the man with the panache and the trumpet is still invisible. In the end, Marianne will get her man, but "between the crisis and the catastrophe, there is a little moment." The Exposition of 1937 may turn the tide and usher in a Renaissance of French Art and Industry.

MARKET STATISTICS

	N. Y. Times 40 Bonds	Dow, Jones Avgs. 30 Indus.	Dow, Jones Avgs. 20 Rails	N. Y. Times 50 Stocks High	N. Y. Times 50 Stocks Low	Sales
Monday, April 6	87.58	161.99	49.35	126.00	124.67	2,032,048
Tuesday, April 7	87.50	160.94	48.85	125.36	124.26	1,574,650
Wednesday, April 8	87.40	160.97	49.23	125.63	124.03	1,652,550
Thursday, April 9	87.44	160.25	49.70	125.47	124.04	1,654,070
Friday, April 10			EXCHANGE CLOSED			
Saturday, April 11	87.48	160.48	50.05	125.57	124.42	798,280
Monday, April 13	87.38	160.76	50.41	125.87	124.68	1,448,390
Tuesday, April 14	87.19	158.41	49.01	125.43	123.00	1,936,760
Wednesday, April 15	87.21	159.61	49.08	125.28	123.35	1,318,460
Thursday, April 16	87.18	158.49	48.71	125.19	123.79	1,146,560
Friday, April 17	87.06	157.78	48.32	124.50	123.15	1,164,130
Saturday, April 18	86.94	156.07	47.90	123.27	122.08	809,550

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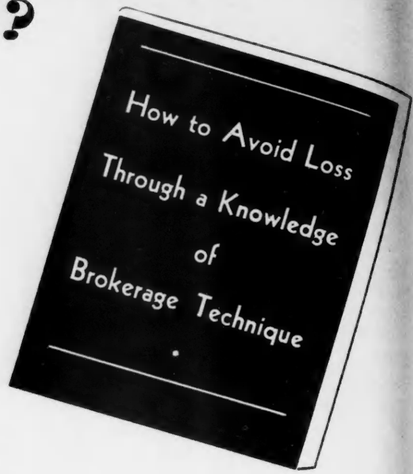

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